NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.

THE FISCAL PROBLEM IN NEW YORK STATE

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FOREWORD

QUESTIONS relating to business taxation are coming to the fore in the minds of business men and leaders of public opinion throughout this country. State legislatures are turning more and more to business enterprise as a source of tax revenue. The consequent growth of business tax burdens has reached a crucial point in some states, and in many others it has become a matter of serious concern. This is particularly true in New York State and this fact, together with the leading position of the state in the national economic and political life, makes a study of the fiscal situation in New York of special and timely interest.

This volume on "The Fiscal Problem in New York State" is one of a series of six studies by the National Industrial Conference Board made for the New York State Industrial Survey Commission at the request of Associated Industries of New York State, Inc. The main emphasis in the present study is placed on the problem of business taxation, although in order to place this problem in its proper perspective it is necessary to take into consideration issues of public expenditures, public borrowing and the tax system of the state. Wherever adequate data could be obtained, the situation in New York State was compared with that in other states.

The data used in this volume, unless otherwise indicated, are official in character and were secured from published or unpublished records of state and local public officials. The National Industrial Conference Board acknowledges with pleasure its obligation to these public officials and to all others who cooperated with it in furnishing the material required. In particular, the Board desires to express its appreciation to the New York State Tax Commission, and especially to Commissioner Mark Graves, to the New York State Special Joint Committee on Taxation and Retrenchment, to the Advisory Tax Committee of Associated Industries of New York State, Inc., and to Prentice Hall, Inc., for special information and advice. The Board is also in-

debted to its own Advisory Committee on Taxation and Public Finance, whose close cooperation has been invaluable, viz.:

Addison L. Green, Chairman, Farr Alpaca Company, Holyoke, Mass., *Committee Chairman.*
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This volume is the result of an investigation conducted by Mr. William J. Shultz and assistants, of the Conference

Board's Research Staff, under the supervision of the Staff Economic Council.

In the preparation of its studies the National Industrial Conference Board avails itself of the experience and judgment of the business executives who compose its membership and of recognized authorities in special fields, in addition to the scientific knowledge and equipment of its Research Staff. The publications of the Board thus finally represent the result of scientific investigation and broad business experience, and the conclusions expressed therein are those of the Conference Board as a body.

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THE FISCAL PROBLEM IN NEW YORK STATE

INTRODUCTION

THE state and local governments of New York spend over a billion dollars annually, and this total is rapidly increasing. The growth of tax and debt burdens resultant upon this increase of state and local expenditures has created problems of public finance of the first magnitude.

Scope of the Study

Many aspects of the individual's personal and business activities are affected directly or indirectly by the fiscal policies of the state in which he resides. An analysis and study of the fiscal issues of any state must, however, if it is to have unity and organization, base its approach on one main aspect of the general problem. In this study, the National Industrial Conference Board as in its earlier fiscal studies on Wisconsin, West Virginia and Illinois, emphasizes the relation of the fiscal system of the state to the circumstances and progress of business activity within the state.

The relation of the expenditure, borrowing and debt policies of New York's state and local governments to business enterprise within the state offers a broad and interesting field of inquiry. It raises the questions of the relative tax burdens on business enterprises in New York and other competing states, of relative tax burdens on different classes of business enterprise within the state, and of the general efficiency and organization of the state and local fiscal system.

While the central problem of this study is the effect of taxation on the cost of New York business enterprise, it

cannot be presented in its proper setting without a discussion of the general state and local fiscal problem. This study includes, therefore, (1) an analysis of the issues of state and local expenditures, of the methods of promoting government efficiency and of the possibilities of exercising a degree of control over these expenditures; (2) an examination of the methods of financing state and local expenditures by borrowing and by taxation; (3) a comparison of the distribution of tax burdens in New York State with that in other states and a study of the distribution of the New York tax burden among different groups within the state; (4) an examination of the operation and effects of each tax used in New York State and a discussion of possible revisions and of new sources of revenue; and (5) a review of the various aspects of the interrelation of the state and the local revenue systems which affect the distribution of the tax burden among groups within the state.

As the economic and social structure of a state changes, concurrent alterations are imposed upon its fiscal system. For example, the development of a single machine—the automobile—during the last two or three decades has necessitated the spending of hundreds of millions of dollars by the state for highway construction and maintenance. Changes in other fields of governmental activity—education, protection, social welfare—have been no less significant and have called for serious reforms in the state's system of financing its expenditures. The fiscal problem of New York State, therefore, is not fixed and static; it is essentially a problem of change and development.

The Period Covered

The decade 1917 through 1926, was one of rapid social and economic development for New York. During these years, also, the fiscal system of the state and local governments of New York underwent radical transformation. The fiscal problems and issues that were paramount prior to 1917 waned, and others have taken their place. A discussion of the issues of the years prior to 1917, would be of historical interest, but it would have little bearing upon and would lead to no solution of present day problems. With these

circumstances in mind, the Conference Board has limited the period covered by the study to the decade 1917 through 1926. Only where a brief historical background is necessary to place present issues in their proper perspective does this study go behind the year 1917.

Sources of Data

A wealth of organized statistical data was available for this study. Liberal use was made of the annual reports of the New York State Tax Commission. This Commission was established in its present form in 1896, and its powers were considerably enlarged in 1915. The basis of the State Tax Commission's activities is now, as always, its administrative functions. During recent years, however, it has devoted increasing attention to the study of the New York tax system, collecting and publishing from year to year an invaluable series of statistics and calculations.

A second fruitful source of information are the reports of the Special Joint Committee on Taxation and Retrenchment. The New York legislature has long been especially prone to establish temporary or special committees or commissions to study particular fiscal problems. Until recently, these bodies have had short lives; they functioned only as long as was necessary to review the particular problem assigned to them, make an investigation and prepare a report. In 1919, the legislature, influenced by the work of the Mills Committee of 1915–1916, provided for a Special Joint Committee on Taxation and Retrenchment, "to inquire into and investigate the subject of taxation and report remedial legislation." By joint resolution, the life of this committee has been continued for eight years. In a series of able studies, it has reported its inquiries into various aspects of state and local finance.

In addition to these two main sources of information, constant recourse was made to the annual reports of the State Comptroller on state and on municipal finances. The figures for the state and local tax payments of individuals and corporations were obtained from the United States Bureau of Internal Revenue. Prentice Hall, Inc., was

generous in allowing the use of its tax service and in supplying data on tax law and tax administration. For much of its comparative data, the National Industrial Conference Board has relied upon its earlier calculations which appeared in its study, "The Cost of Government in the United States, 1925–1926," and in its series of publications on state and local fiscal systems.[1] A full statement of sources of data and of methods used in treating them is given in Appendix A.

[1] See National Industrial Conference Board, "The Cost of Government in the United States, 1925–1926," New York, 1927; "The Fiscal Problem in Illinois," 1927; "The Fiscal Problem in Delaware," 1927; "The Tax Problem in West Virginia," 1925; "The Tax Problem in Wisconsin," 1924.

CHAPTER I

PUBLIC EXPENDITURES OF NEW YORK STATE

DURING the war the state and local governments of New York, like other state and local governments, held down their expenditures, while the expenditures of the Federal Government rose to extraordinary proportions. After the war, the volume of federal expenditures declined materially below the wartime level, while state and local expenditures, as was to be expected, were rapidly expanded. It was assumed that after such expenditures had caught up the slack of wartime repression, they would diminish or at least be held to a relatively constant figure. Instead, the increase of these expenditures in recent years in New York State has been uninterrupted and has forced up taxes until their burden has become an item of business cost which cannot be overlooked and has resulted in a debt burden that will make difficult any reduction of the tax burden in the near future.

Combined State and Local Expenditures

As shown in Table 1, the combined gross[1] expenditures of the state and local governments of New York increased from $468.6 millions in 1917, to $1,108.2 millions in 1925, an increase of 136.5%.

During the first half of this nine-year period, however, the purchasing value of the dollar was rapidly declining—that is, with each succeeding year, it took more dollars to purchase the same quantity and quality of goods and services. To eliminate the effect of price fluctuations, it is necessary to state all governmental costs in terms of a dollar of constant purchasing power. In line two of Table 1, all expendi-

[1] "Gross expenditures" include all governmental payments; "net expenditures" exclude payments for debt retirement and public utilities.

Table 1: The Measures of New York State and Local Gross Expenditures, Fiscal Years 1917 to 1925

(National Industrial Conference Board)

Measures	1917	1918	1919	1920	1921	1922	1923	1924	1925
State and Local Gross Expenditures in Actual and "1917" Dollars (Thousands)									
Actual dollars	$468,555	$483,413	$510,345	$603,312	$700,821	$797,146	$867,073	$979,152	$1,108,227
"1917" dollars[1]	468,555	437,153	424,672	440,960	516,563	659,568	686,342	749,803	843,591
Per Capita Gross Expenditures									
Population (in thousands)	10,058	10,189	10,320	10,457	10,600	10,744	10,887	11,030	11,162
Per capita expenditures—actual dollars	$46.59	$47.44	$49.45	$57.69	$66.12	$74.19	$79.64	$88.77	$99.29
Per capita expenditures—"1917" dollars	46.59	42.90	41.15	42.17	48.73	61.39	63.04	67.98	75.58
Gross Expenditures per Gainfully Employed									
Gainfully employed (in thousands)	4,379	4,430	4,481	4,534	4,590	4,647	4,702	4,758	4,808
Expenditures per gainfully employed—actual dollars	$107.00	$109.12	$113.89	$133.06	$152.68	$171.54	$184.41	$205.79	$230.50
Expenditures per gainfully employed—"1917" dollars	107.00	98.68	94.77	97.26	112.54	141.93	145.97	157.59	175.46
Gross Expenditures Related to State Income									
State income (in millions)[2]	$7,735	$8,754	$9,795	$11,163	$8,899	$9,246	$10,097	$10,245	$11,031
Proportion of state income represented by state and local gross expenditures	6.1%	5.5%	5.2%	5.4%	7.9%	8.6%	8.6%	9.6%	10.0%
Gross Expenditures Related to State Income plus One-tenth of State's Wealth									
State income plus $\frac{1}{10}$ of State's wealth[3] (millions)	$12,201	$13,643	$14,977	$16,828	$12,567	$12,950	$13,933	$14,039	$15,042
Proportion of state income plus $\frac{1}{10}$ of State's wealth represented by state and local gross expenditures	3.8%	3.5%	3.4%	3.6%	5.6%	6.2%	6.2%	7.0%	7.4%

[1] Carl Snyder's "general price level" index used.
[2] For method of calculation, see Appendix A of this volume.
[3] For method of calculation, see Appendix A of this volume.

tures are expressed in "1917" dollars, or at 1917 prices.[1] With the increase in prices thus taken account of, it is seen that between 1917 and 1921, the "true" expenditure of the state and local governments increased only 10.2%, as compared with an increase of 49.6% in actual dollars. Since 1921, the purchasing power of the dollar has remained practically constant, and the expenditure increases of state and local governments in actual and in "1917" dollars were about the same, that is, approximately sixty per cent. Between 1917 and 1925, with the increase due to price changes eliminated, New York's state and local expenditures increased 80%.

During the same period, the population of the state increased by approximately one million, or about eleven per cent. Consequently, the growth of state and local expenditures when measured against population is less rapid than the bare expenditure figures would indicate. The per capita expenditure of New York in "1917" dollars increased from $46.59 in 1917, to $75.58 in 1925, an increase of 62.2%. The increase in the number of persons in New York who are gainfully employed has been slower than the growth of the total population of the state; consequently, New York's state and local expenditure per person gainfully employed increased more rapidly than such expenditure per capita. Still another measure of the increase in public expenditures may be obtained by relating it to the income of the people of the state.[2] In 1919, New York's state and local expenditures amounted to 5.2% of the income of the state, as compared with 10% in 1925. Since public expenditures are properly related not only to current income which is variable from year to year, but also to the capital or wealth of the people of the state,[3] which increases gradually and slowly, the increase in public expenditures has been related to the state income plus one-tenth of the state wealth. The ratio of the public expenditures of New York State to this measure increased from 3.4% in 1919, to 7.4% in 1925.

[1] Carl Snyder's general price index is used, since the items that go into its composition are more representative of public expenditures than those of any other index.

[2] For the method of calculating the income of the people of New York State, see Appendix A of this volume.

[3] For the method of calculating the wealth of the people of New York State, see Appendix A of this volume.

Distribution of Expenditures According to Governmental Agencies

During the nine years, 1917 through 1925, there were significant changes in the relative importance of the public expenditures of the various governmental agencies in New York State. In 1917, as shown in Table 2, New York City spent $204.6 millions (including the expenditures of the city school organization with those of the city government proper), over half of the total net expenditures of the state

TABLE 2: NEW YORK STATE AND LOCAL EXPENDITURES[1] DISTRIBUTED

(Source: Annual Reports of the Comptroller and United

Governmental Divisions	1917		1918		1919		1920	
	Net	Gross	Net	Gross	Net	Gross	Net	Gross
								Amount (in
State	$77,285	$77,285	$84,951	$85,046	$90,375	$90,470	$98,588	$98,683
Counties	18,196	20,543	17,961	19,761	20,234	21,646	25,294	27,010
Towns	13,950	14,640	14,334	15,103	17,035	17,875	20,802	21,642
New York City	204,613	253,442	214,187	255,326	225,232	259,105	263,301	309,164
All other cities	55,584	76,133	58,748	79,980	69,030	93,382	82,685	111,382
Villages	8,724	12,324	7,927	12,245	7,306	11,746	8,759	14,480
School districts (outside of cities)	13,402	14,188	15,133	15,952	15,299	16,121	20,106	20,951
Total	$391,754	$468,555	$413,241	$483,413	$444,511	$510,345	$519,535	$603,312
								Percentage
State	19.7	16.5	20.6	17.6	20.3	17.7	19.0	16.3
Counties	4.7	4.4	4.3	4.1	4.6	4.2	4.9	4.5
Towns	3.6	3.1	3.5	3.1	3.9	3.5	4.0	3.6
New York City	52.2	54.1	51.8	52.8	50.7	50.8	50.7	51.2
All other cities	14.2	16.3	14.2	16.6	15.5	18.3	15.9	18.5
Villages	2.2	2.6	1.9	2.5	1.6	2.3	1.7	2.4
School districts (outside of cities)	3.4	3.0	3.7	3.3	3.4	3.2	3.8	3.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Duplication of expenditures through state aid, etc., eliminated.

and local governments of New York. The other cities of the state accounted for $55.6 millions (including the school expenditures made in these cities), or 14.2% of the combined total. The $77.3 millions expended by the state government in that year represented 19.7% of the net total. The combined expenditures of the counties, towns, incorporated villages and school districts were only 13.9% of the combined net total. In the same year the cities and villages of the state made relatively greater expenditures for public utilities and for debt service than other agencies of government. Consequently, when relative expenditures are calculated on the basis of combined gross expenditures instead of combined

net expenditures, it is found that New York City spent 54.1%; other cities, 16.3%; and villages, 2.6% of the combined gross expenditures.

During this nine-year period, 1917 through 1925, the expenditures of all governmental bodies increased, although some of them increased their expenditures more rapidly than others. The net expenditures of New York City, for example, amounted to 46.2% of the combined net total in 1925, as compared with 52.2% of the total in 1917. During this

ACCORDING TO GOVERNMENTAL DIVISIONS, FISCAL YEARS 1917 TO 1926

States Bureau of The Census, "Financial Statistics" Series)

1921		1922		1923		1924		1925		1926	
Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Thousands)											
$136,847	$136,942	$141,870	$142,601	$142,431	$145,185	$162,156	$162,910	$214,767	$217,302	$158,672	$188,608
35,216	36,930	36,169	38,318	40,156	43,174	52,124	54,686	55,761	58,382	75,962	79,019
26,068	27,177	26,731	27,764	33,076	34,641	39,830	41,196	43,083	44,700	47,614	49,497
291,666	332,992	336,045	397,385	370,939	429,167	424,122	486,406	455,755	523,063	..	..
95,274	124,181	108,614	143,228	122,048	157,359	131,688	164,943	149,155	186,927	..	..
10,150	17,172	12,840	19,669	16,272	22,938	18,404	26,552	21,206	29,830	24,117	32,214
24,463	25,427	27,075	28,181	33,328	34,609	40,855	42,459	46,028	48,023	46,494	48,724
$619,684	$700,821	$689,344	$797,146	$758,250	$867,073	$869,179	$979,152	$985,755	$1,108,227	..	..
Distribution											
22.1	19.5	20.6	17.9	18.8	16.7	18.7	16.6	21.8	19.6	..	..
5.7	5.3	5.2	4.8	5.3	5.0	6.0	5.6	5.7	5.3	..	..
4.2	3.9	3.9	3.5	4.4	4.0	4.6	4.2	4.4	4.0	..	..
47.1	47.5	48.7	49.8	48.9	49.5	48.8	49.7	46.2	47.2	..	..
15.4	17.7	15.8	18.0	16.1	18.2	15.1	16.9	15.1	16.9	..	..
1.6	2.5	1.9	2.5	2.1	2.6	2.1	2.7	2.1	2.7	..	..
3.9	3.6	3.9	3.5	4.4	4.0	4.7	4.3	4.7	4.3	..	..
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	..	..

period the proportion of the city's gross expenditures to the combined gross total fell from 54.1% to 47.2%. The net expenditures of the villages of the state also fell somewhat behind the general average. The expenditures of the state government, although they varied considerably from year to year, maintained more or less a constant relation to the average from 1917 to 1925. The counties, towns and school districts increased their expenditures more rapidly than the average.

Functional Distribution of Expenditures

There have also been marked changes in the distribution of New York's combined expenditures according to the purpose of disbursement. As shown in Table 3 and Chart 1,

TABLE 3: NEW YORK STATE AND LOCAL EXPENDITURES[1] DISTRIBUTED ACCORDING TO PURPOSE OF EXPENDITURE, FISCAL YEARS 1917 TO 1925

(Source: Annual Reports of the Comptroller and United States Bureau of Census, "Financial Statistics" Series)

Purpose of Expenditure	1917	1918	1919	1920	1921	1922	1923	1924	1925
Amount (in Thousands)									
General government	$40,344	$41,994	$42,806	$49,344	$55,069	$56,446	$59,505	$62,291	$68,659
Protection and regulation	49,818	58,235	61,426	66,317	73,639	83,063	86,257	95,310	140,277
Education	73,793	79,308	88,344	111,127	138,498	168,230	178,133	188,725	201,848
Highways	32,808	31,206	37,873	46,886	55,460	49,357	63,851	63,332	71,473
Charities, hospitals, and corrections	35,593	41,936	44,716	50,162	57,025	58,952	59,000	63,404	64,838
Sanitation and conservation of health	20,993	23,349	25,883	31,389	38,034	40,008	41,876	45,957	51,635
Recreation	5,203	5,345	5,949	6,959	7,968	8,698	9,616	9,515	11,604
Economic development	1,990	2,042	2,462	3,912	4,761	3,294	5,300	5,798	5,396
Miscellaneous	2,775	3,205	2,604	3,023	3,498	3,947	4,264	5,194	4,794
Total maintenance	$263,317	$286,620	$312,063	$369,119	$433,952	$471,995	$507,802	$539,526	$620,524
Capital outlays	68,634	61,866	63,865	78,569	111,499	132,310	163,301	239,550	267,657
Interest	59,803	64,755	68,583	71,847	74,233	85,039	87,147	90,103	97,574
Combined net total	$391,754	$413,241	$444,511	$519,535	$619,684	$689,344	$758,250	$869,179	$985,755
Public utilities { capital	14,257	8,668	5,556	11,491	16,676	23,251	25,948	32,411	34,301
Public utilities { maintenance	22,648	24,040	23,532	25,669	28,116	31,271	33,991	35,374	38,884
Debt redemption	39,896	37,464	36,746	46,617	36,345	53,280	48,884	42,188	49,287
Gross total	$468,555	$483,413	$510,345	$603,312	$700,821	$797,146	$867,073	$979,152	$1,108,227
Percentage Distribution of Combined Net Expenditures									
General government	10.3	10.2	9.6	9.5	8.9	8.2	7.8	7.2	7.0
Protection and regulation	12.7	14.1	13.8	12.8	11.9	12.0	11.4	10.9	14.2
Education	18.8	19.2	19.9	21.4	22.3	24.4	23.5	21.7	20.5
Highways	8.4	7.6	8.5	9.0	8.9	7.1	8.4	7.3	7.3
Charities, hospitals, and corrections	9.1	10.1	10.1	9.7	9.2	8.6	7.8	7.3	6.6

Sanitation and conservation of health	5.4	5.6	5.8	6.0	6.1	5.8	5.5	5.3	5.2
Recreation	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.1	1.2
Economic development	.5	.5	.6	.8	.8	.5	.7	.7	.5
Miscellaneous	.7	.8	.6	.6	.6	.6	.6	.6	.5
Total maintenance	67.2	69.4	70.2	71.1	70.0	68.5	67.0	62.1	63.0
Capital outlays	17.5	15.0	14.4	15.1	18.0	19.2	21.5	27.5	27.1
Interest	15.3	15.6	15.4	13.8	12.0	12.3	11.5	10.4	9.9
Combined net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

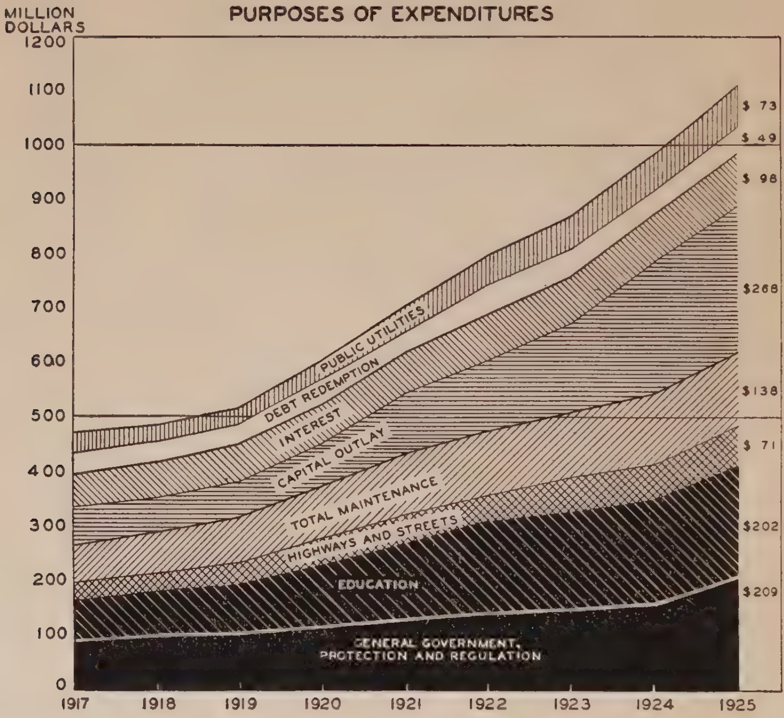
Percentage Distribution of Combined Gross Expenditures

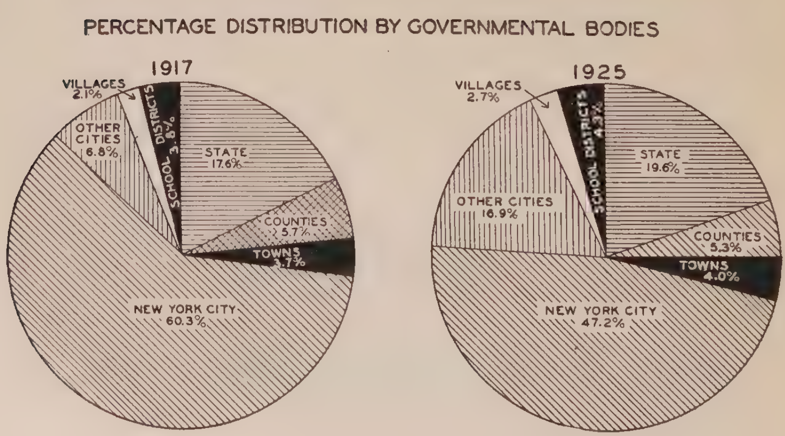
General government	8.6	8.7	8.4	8.2	7.9	7.1	6.9	6.4	6.2
Protection and regulation	10.6	12.0	12.0	11.0	10.5	10.4	9.9	9.7	12.7
Education	15.8	16.4	17.3	18.4	19.8	21.1	20.6	19.2	18.2
Highways	7.0	6.5	7.4	7.8	7.9	6.2	7.4	6.5	6.4
Charities, hospitals, and corrections	7.6	8.7	8.8	8.3	8.1	7.4	6.8	6.5	5.9
Sanitation and conservation of health	4.5	4.8	5.1	5.2	5.4	5.0	4.8	4.7	4.7
Recreation	1.1	1.1	1.2	1.2	1.1	1.1	1.1	1.0	1.0
Economic development	.4	.4	.5	.6	.7	.4	.6	.6	.5
Miscellaneous	.6	.7	.5	.5	.5	.5	.5	.5	.4
Total maintenance	56.2	59.3	61.2	61.2	61.9	59.2	58.6	55.1	56.0
Capital outlays	14.6	12.8	12.5	13.0	15.9	16.6	18.8	24.5	24.1
Interest	12.8	13.4	13.4	11.9	10.6	10.7	10.1	9.2	8.8
Combined net total	83.6	85.5	87.1	86.1	88.4	86.5	87.5	88.8	88.9
Public utilities { capital	3.1	1.7	1.1	1.9	2.4	2.9	3.0	3.3	3.1
Public utilities { maintenance	4.8	5.0	4.6	4.3	4.0	3.9	3.9	3.6	3.5
Debt redemption	8.5	7.8	7.2	7.7	5.2	6.7	5.6	4.3	4.5
Gross total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Duplication of expenditures through state aid, etc., eliminated.

CHART 1: NEW YORK STATE AND LOCAL EXPENDITURES, 1917 TO 1925

(National Industrial Conference Board)





the greatest change has come in the relation of capital expenditure to maintenance expenditure. In 1917, capital outlays constituted 17.5% of the combined net total of state and local expenditures. During the next three years, the proportion was still lower because construction programs were discouraged by the credit demands of the Federal Government and by the high rate of interest that had to be paid on public borrowings. From 1921 on, capital outlays increased both in amount and in proportion to the combined net total of expenditures. They reached a peak in 1925, when $267.7 millions were expended in capital outlays. This amount represented 27.1% of the year's combined net total.

Expenditures for the several maintenance purposes increased more or less at a constant rate. The proportion of expenditures for general government, charities, hospitals and corrections fell off slightly during the nine-year period 1917 to 1925, while expenditures for education increased somewhat more rapidly than the average. The increase of state and local indebtedness during this period was accompanied by a rise in interest payments from $59.8 millions in 1917 to $97.6 millions in 1925; however, since other net expenditures increased more rapidly, the proportion of interest payments to the total was lower in 1925 than in 1917.

During 1918, 1919, and 1920, capital outlays on public utilities were sharply restricted along with all other capital outlays. Each year since 1920, however, has seen a marked increase in public utility construction, and in 1925, $34.3 millions were expended for this purpose. Meanwhile, the maintenance cost of public utility enterprises has steadily increased, and in 1925 it amounted to $38.9 millions. The combined capital and maintenance expenditures on public utilities in 1925, constituted 6.6% of the gross total of state and local expenditures. The amount of debt redemption has varied from year to year, showing, however, a tendency to increase as new borrowings have added to the total indebtedness. In 1925, this item was $49.3 millions, or 4.5% of the gross total of combined state and local expenditures.

Expenditures of Governmental Agencies in New York

Certain functions of government, like educational and road-building activities, are in some measure common to all governmental agencies. On the other hand, certain activities fall within the sphere of a specific division of government. Industrial regulation, for example, is strictly a function of the state government. Similarly the counties, villages, school districts and the cities have spheres of activity which are exclusively their own. It is necessary, therefore, to study the functional distribution of expenditures of each of these agencies of government. These are analyzed in Tables 4 to 10 and in the text following, and are illustrated in Chart 2.

Expenditures of the State Government

The largest single item of state expenditure is education; 28.2% of the state government's net expenditures in 1926, was devoted to this purpose. The rapidity of the growth of state expenditures for education resulting from increases in appropriations for state school aid has been astounding. In 1917, these expenditures totaled $10.9 millions. In 1926, they amounted to $52.3 millions. About ten million dollars of this 1926 total was expended directly by the state government on normal schools and on administrative school activities; the remainder, over four-fifths of the total, represented state aid to localities. The problems of rural education in New York are being given attention they never before received, and in this connection the legislature faces constant pressure to increase state school aid with a view to greater equalization of educational opportunities in different school districts. Large increases have been authorized in recent years;[1] the state appropriation for 1928–1929, recommended in the executive budget, is $86.2 millions.

Highway expenditures of the state government more than doubled between 1917 and 1926, and expenditures for all other purposes were augmented, but the growth of school expenditures overshadowed the increases in these items.

[1] See University of the State of New York, Education Department, Annual Report, 1926, pp. 13 ff.

CHART 2: DISTRIBUTION BY PURPOSES OF THE EXPENDITURES OF NEW YORK GOVERNMENTAL DIVISIONS

(National Industrial Conference Board)

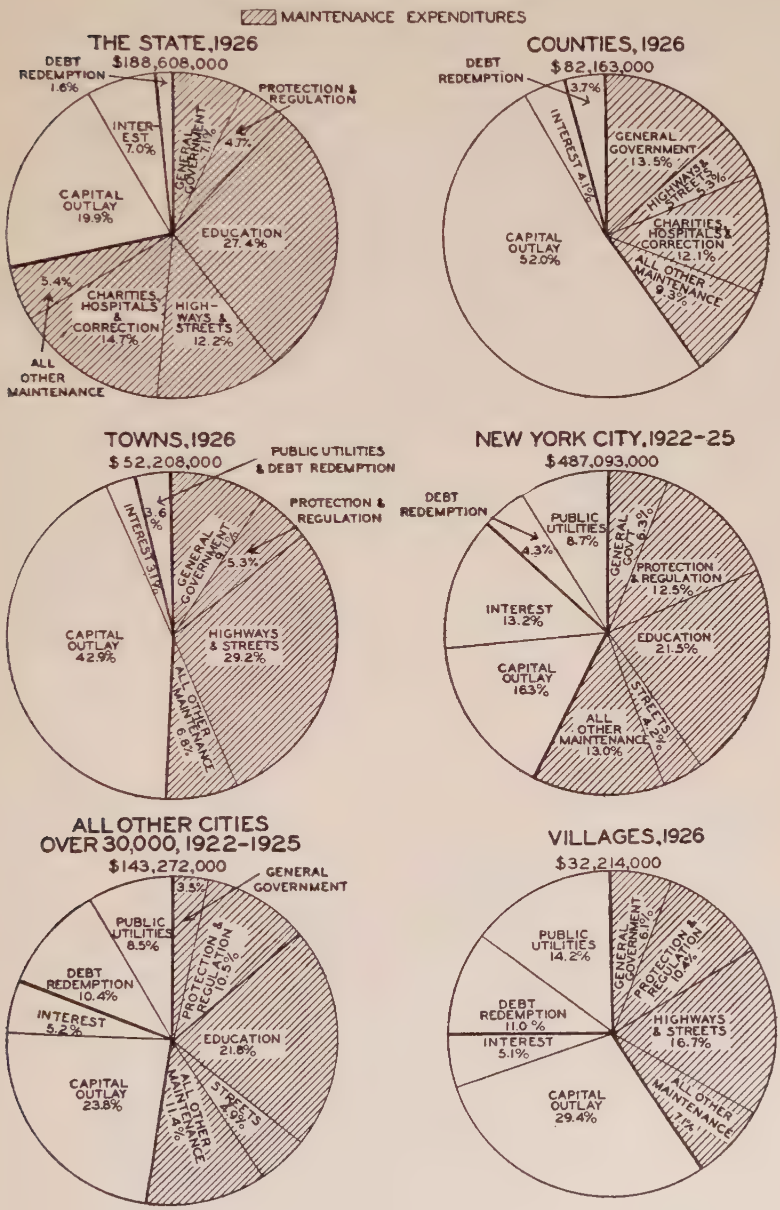


Table 4: Expenditures of the New York State Government, Fiscal Years 1917 to 1926

(Source: Annual Reports of the Comptroller and the United States Bureau of Census, "Financial Statistics of States" Series)

Purpose of Expenditure		1917[1]	1918[1]	1919[1]	1920[3]	1921[3]	1922[1]	1923[1]	1924[1]	1925[1]	1926[1]
Amount (in Thousands)											
General government	capital	$329	$514	$325	$557	$14	$72	$53	$76	$42	$876
	maintenance	7,408	7,903	8,158	10,666	$12,149	9,975	9,708	9,956	11,372	13,385
Protection and regulation	capital	152	119	147	407	403	243	154	767	214	152
	maintenance	5,503	9,468	8,865	6,721	7,828	7,630	6,398	10,328	49,693	8,864
Education	capital	479	486	272	296	118	658	907	709	317	494
	maintenance	10,450	10,981	12,368	17,297	38,962	42,871	44,804	47,199	49,834	51,776
Highways	capital	15,031	13,674	13,407	11,062	16,838	20,865	17,488	22,997	28,546	25,354
	maintenance	8,246	8,493	11,544	13,273	15,264	15,118	17,308	19,554	20,723	22,951
Charities, hospitals, and corrections	capital	1,364	1,727	2,044	3,043	4,581	4,833	3,010	3,666	4,786	8,439
	maintenance	13,540	17,433	17,796	19,403	22,473	21,570	22,051	24,214	25,548	27,730
Conservation of health and sanitation	capital	68	33	197	83	33	19	18	71	219	117
	maintenance	1,051	1,344	1,726	960	1,418	1,374	1,673	1,833	2,182	2,225
Recreation	capital	2,370	163	137	24	319	376	373	842	1,037	1,371
	maintenance	424	321	368	394	482	331	615	719	973	1,066
Economic development	capital	88	430	663	923	1,110	1,215	1,257	2,118	449	662
	maintenance	1,990	2,042	2,462	3,912	4,761	3,294	5,300	5,798	5,396	6,396
Miscellaneous	capital	..	..	17	..	..	..	..	..	..	..
	maintenance	103	213	260	40	45	249	235	404	339	544
Total	capital	$19,881	$17,146	$17,209	$16,395	$23,416	$28,281	$23,260	$31,246	$35,610	$37,465
	maintenance	48,715	58,198	63,547	72,666	103,382	102,412	108,092	120,005	166,060	134,937
Interest		8,689	9,607	9,619	9,527	10,049	11,177	11,079	10,905	13,097	13,270
Combined net total		$77,284	$84,951	$90,375	$98,588	$136,847	$141,870	$142,431	$162,156	$214,767	$185,672
Debt redemption[2]		..	95	95	95	95	731	2,754	754	2,535	2,936
Gross total		$77,284	$85,046	$90,470	$98,683	$136,942	$142,601	$145,185	$162,910	$217,302	$188,608
Percentage Distribution of Net Expenditures for Capital Outlays and Payments for Maintenance											
Capital outlays		29.0	22.8	21.3	18.4	18.5	21.6	17.7	20.7	17.7	21.7
Maintenance		71.0	77.2	78.7	81.6	81.5	78.4	82.3	79.3	82.3	78.3
Net total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage Distribution of Combined Net Expenditures

General government	10.0	9.9	9.4	11.4	9.0	7.0	6.9	6.2	5.3	7.7
Protection and regulation	7.3	11.3	10.0	7.2	6.0	5.5	4.6	6.9	23.2	4.8
Education	14.1	13.5	14.0	17.8	28.1	30.7	32.1	29.5	23.4	28.2
Highways	30.1	26.1	27.6	24.7	23.6	25.4	24.4	26.2	23.0	26.0
Charities, hospitals, and corrections	19.3	22.5	21.9	22.8	19.9	18.6	17.5	17.2	14.1	19.5
Conservation of health and sanitation	1.5	1.6	2.1	1.1	1.1	1.0	1.2	1.2	1.1	1.3
Recreation	3.6	.6	.6	.4	.6	.5	.7	1.0	.9	1.3
Economic development	2.7	2.9	3.5	4.9	4.3	3.2	4.6	4.9	2.7	3.8
Miscellaneous	.1	.3	.3	[3]	[3]	.2	.2	.2	.2	.3
Interest	11.3	11.3	10.6	9.7	7.4	7.9	7.8	6.7	6.1	7.1
Combined net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage Distribution of Gross Expenditures

General government	10.0	9.9	9.4	11.4	9.0	7.1	6.7	6.2	5.2	7.6
Protection and regulation	7.3	11.3	10.0	7.2	6.0	5.5	4.5	6.8	23.0	4.8
Education	14.1	13.5	14.0	17.8	28.1	30.5	31.5	29.4	23.1	27.7
Highways	30.1	26.1	27.5	24.7	23.6	25.2	24.0	26.1	22.7	25.6
Charities, hospitals, and corrections	19.3	22.5	21.9	22.7	19.8	18.5	17.3	17.1	14.0	19.2
Conservation of health and sanitation	1.5	1.6	2.1	1.1	1.1	1.0	1.1	1.2	1.1	1.2
Recreation	3.6	.6	.6	.4	.6	.5	.7	1.0	.9	1.3
Economic development	2.7	2.9	3.5	4.9	4.3	3.2	4.5	4.8	2.7	3.7
Miscellaneous	.1	.2	.3	[3]	[3]	.2	.2	.2	.1	.3
Interest	11.3	11.3	10.6	9.7	7.4	7.8	7.6	6.7	6.0	7.0
Combined net total	100.0	99.9	99.9	99.9	99.9	99.5	98.1	99.5	98.8	98.4
Debt redemption	. .	.1	.1	.1	.1	.5	1.9	.5	1.2	1.6
Gross total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] From United States Bureau of the Census, "Financial Statistics of States" Series.
[2] From New York Comptroller's reports.
[3] Less than .05%.

Table 5: Expenditures of the New York Counties, Fiscal Years 1917 to 1926

(Source: Annual Reports of the Comptroller)

Purpose of Expenditure	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
General government	$6,086	$6,179	$6,523	$7,283	$8,137	$8,352	$8,481	$9,244	$10,184	$11,107
Protection and regulation	871	1,064	941	1,017	1,126	1,171	1,269	1,485	1,659	1,775
Education	232	285	379	480	530	580	630	687	721	708
Highways	926	688	1,211	1,580	1,804	2,498	3,208	3,508	4,004	4,373
Charities, hospitals, and corrections	5,377	6,017	6,554	7,044	7,782	7,727	8,029	8,704	9,217	9,964
Sanitation and conservation of health	638	911	1,082	1,693	2,068	2,028	2,346	2,609	2,894	3,245
Recreation	..	..	..	..	..	..	..	..	669	1,049
Miscellaneous	282	110	152	84	229	299	455	402	332	769
Total maintenance	$14,412	$15,254	$16,842	$19,181	$21,676	$22,655	$24,418	$26,639	$29,680	$32,990
Capital outlays	4,601	3,724	4,299	7,202	13,661	14,589	16,399	26,042	26,115	42,739
Interest	1,054	1,371	1,392	1,235	1,619	1,959	2,123	2,270	2,714	3,377
Combined net total	$20,067	$20,349	$22,533	$27,618	$36,956	$39,203	$42,940	$54,951	$58,509	$79,106
Debt redemption	2,347	1,800	1,412	1,716	1,714	2,149	3,018	2,562	2,621	3,057
Gross total	$22,414	$22,149	$23,945	$29,334	$38,670	$41,352	$45,958	$57,513	$61,130	$82,163
Percentage Distribution of Combined Net Expenditures										
General government	30.3	30.4	28.9	26.4	22.0	21.3	19.7	16.8	17.4	14.0
Protection and regulation	4.3	5.2	4.2	3.7	3.0	3.0	3.0	2.7	2.8	2.3
Education	1.2	1.4	1.6	1.7	1.4	1.5	1.5	1.3	1.2	.9
Highways	4.6	3.4	5.4	5.7	4.9	6.3	7.5	6.4	6.9	5.5
Charities, hospitals, and corrections	26.8	29.5	29.1	25.5	21.0	19.7	18.7	15.8	15.8	12.6
Sanitation and conservation of health	3.2	4.5	4.8	6.1	5.5	5.2	5.4	4.8	5.0	4.1
Recreation	..	..	..	..	..	..	..	..	1.1	1.3

Miscellaneous	1.4	.6	.7	.3	.8	.8	1.0	.7	.6	1.0
Total maintenance	71.8	75.0	74.7	69.4	58.6	57.8	56.8	48.5	50.8	41.7
Capital outlays	22.9	18.3	19.1	26.1	37.0	37.2	38.2	47.4	44.6	54.0
Interest	5.3	6.7	6.2	4.5	4.4	5.0	5.0	4.1	4.6	4.3
Combined net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage Distribution of Gross Expenditures

General government	27.2	27.9	27.2	24.8	21.0	20.2	18.4	16.1	16.7	13.5
Protection and regulation	3.9	4.8	3.9	3.5	2.9	2.8	2.8	2.6	2.7	2.2
Education	1.0	1.3	1.6	1.6	1.4	1.4	1.4	1.2	1.2	.9
Highways	4.1	3.1	5.1	5.4	4.7	6.1	7.0	6.1	6.5	5.3
Charities, hospitals, and corrections	24.0	27.2	27.4	24.0	20.1	18.7	17.5	15.1	15.1	12.1
Sanitation and conservation of health	2.8	4.1	4.5	5.8	5.4	4.9	5.1	4.5	4.7	4.0
Recreation	..	..	..	..	..	..	..	..	1.1	1.3
Miscellaneous	1.3	.5	.6	.3	.6	.7	1.0	.7	.6	.9
Total maintenance	64.3	68.9	70.3	65.4	56.1	54.8	53.2	46.3	48.6	40.2
Capital outlays	20.5	16.8	18.0	24.6	35.3	35.3	35.7	45.3	42.7	52.0
Interest	4.7	6.2	5.8	4.2	4.2	4.7	4.6	3.9	4.4	4.1
Combined net total	89.5	91.9	94.1	94.2	95.6	94.8	93.5	95.5	95.7	96.3
Debt redemption	10.5	8.1	5.9	5.8	4.4	5.2	6.5	4.5	4.3	3.7
Gross total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

One feature of the functional distribution of the expenditures of the New York state government is the absence of any item for public utilities. It is not unusual for state governments to operate public utility enterprises. The state governments in Ohio, Illinois, and Louisiana operate canals. Those of Maine, Massachusetts, Alabama and California maintain docks, wharves and landings. Eight other states, of which North Dakota and South Dakota are the outstanding examples, operate municipal granaries and other miscellaneous public utility enterprises. In New York, however, such functions are reserved to the town, city and village governments.

Expenditures of the County Governments

From 1917 to 1926, the counties have been responsible for a considerable portion of New York's road and highway construction program. As this program has expanded, county expenditures for road and highway construction have increased. Outlays for this purpose constitute the major part of the item, "capital outlays," shown in Table 5. The total capital outlays of the counties rose from $4.6 millions in 1917 to $42.7 millions in 1926. In the latter year these outlays amounted to 54% of the net total of county expenditures.

With the construction of new roads and of more expensive types of roads, the cost of road maintenance has also increased. Payments for county road maintenance rose from $926,000 in 1917 to $4,373,000 in 1926.

The program of county road and highway construction has been indirectly responsible for still another noteworthy transformation of county finances. The interest on county indebtedness in 1917 amounted to approximately one million dollars. In 1926, as a result of the increase of county borrowings, of which the major part of the proceeds was devoted to road and highway construction, the interest payments on county indebtedness totaled $3.4 millions. In addition, $3.1 millions were spent in 1926, for redemption of maturing county bonds.

The county expenditures for sanitation and the conservation of health indicate that this also is a rapidly growing

county function. In 1917, $638,000 were spent for this purpose. In 1926, the expenditures rose to $3,245,000, an increase of over 400%.

Expenditures of the Town Governments

As shown in Table 6, the towns in 1926 paid out $22.4 millions, or 44.5% of their combined net total of expenditures, in capital outlays, a greater part of which represented roadway construction. The maintenance of highways and roads during the same year took $15.2 millions, or 30.3% of their combined net expenditures. These two items between them accounted for about three-fourths of the 1926 net expenditures of the New York towns. Rural school expenditures are made by independent school districts, and hence do not appear in this comparison.

Expenditures of New York City

New York City exercises the functions of local government for nearly one-half the population of the state and spends over a half billion dollars annually. Its expenditures are such an overwhelming item in the combined state and local total that they deserve special consideration. They are independently classified and tabulated for the period 1917 through 1925 in Table 7.

The outstanding fiscal function of the government of New York City is the support of its educational system. In 1925, New York City spent $154.1 millions, or nearly one-third of its net expenditures, on its schools. Police and fire protection came next, while the third largest item of net expenditures was interest on the city debt.

Capital expenditures are a growing item in New York City's budget, as they are in the budgets of the other governmental divisions of the state. These capital outlays, however, are not made exclusively or even largely for highway or street construction. The largest item of capital expenditure is for schools and school buildings. The average outlay for this purpose during the four-year period, 1922 through 1925, was $34.7 millions. Outlays for street construction were next in importance, the average for this four-year period being $21.3 millions. Altogether, 22.1% of New York City's

Table 6: Expenditures of the New York Towns, Fiscal Years 1917 to 1926

(Source: Annual Reports of the Comptroller)

Purpose of Expenditure	1917 [1]	1918 [2]	1919 [3]	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
General government	$2,558	$2,680	$3,004	$3,249	$3,615	$3,579	$3,846	$4,099	$4,556	$4,740
Protection and regulation	639	587	645	712	872	1,353	2,286	1,857	2,416	2,792
Education	79	70	71	110	127	145	132	141	144	146
Highways	7,900	7,218	8,228	10,918	11,130	11,104	12,592	13,068	14,963	15,237
Charities, hospitals, and corrections	794	846	843	849	925	1,022	983	1,019	1,110	1,220
Sanitation and conservation of health	631	477	531	573	591	1,050	388	1,590	2,685	1,905
Recreation	..	..	..	..	..	..	..	..	..	203
Miscellaneous	237	377	164	122	200	352	153	358	255	78
Total maintenance	$12,838	$12,255	$13,486	$16,533	$17,460	$18,605	$20,380	$22,132	$26,129	$26,321
Capital outlays	2,236	3,930	5,250	6,024	10,320	9,903	14,457	19,228	18,345	22,379
Interest	465	447	466	506	559	666	729	1,001	1,246	1,625
Combined net total	$15,539	$16,632	$19,202	$23,063	$28,339	$29,174	$35,566	$42,361	$45,720	$50,325
Public utilities	14	8	22	16	26	20	22	44	25	38
Debt redemption	676	761	818	824	1,083	1,013	1,543	1,322	1,592	1,845
Gross total	$16,229	$17,401	$20,042	$23,903	$29,448	$30,207	$37,131	$43,727	$47,337	$52,208
Percentage Distribution of Combined Net Expenditures										
General government	16.5	16.1	15.6	14.1	12.7	12.3	10.8	9.7	10.0	9.4
Protection and regulation	4.1	3.5	3.4	3.1	3.1	4.6	6.4	4.4	5.3	5.5
Education	.5	.4	.4	.5	.4	.5	.4	.3	.3	.3
Highways	50.8	43.4	42.8	47.3	39.3	38.1	35.4	30.9	32.7	30.3
Charities, hospitals and corrections	5.1	5.1	4.4	3.7	3.3	3.5	2.8	2.4	2.4	2.4
Sanitation and conservation of health	4.1	2.9	2.8	2.5	2.1	3.5	1.1	3.7	5.9	3.8
Recreation	..	..	..	..	..	..	..	..	..	.4

Miscellaneous	1.5	2.3	.9	.5	.7	1.2	.4	.8	.6	.2
Total maintenance	82.6	73.7	70.3	71.7	61.6	63.7	57.3	52.2	57.2	52.3
Capital outlays	14.4	23.6	27.3	26.1	36.4	34.0	40.6	45.4	40.1	44.5
Interest	3.0	2.7	2.4	2.2	2.0	2.3	2.1	2.4	2.7	3.2
Combined net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage Distribution of Gross Expenditure

General government	15.8	15.4	15.0	13.6	12.3	11.7	10.4	9.4	9.6	9.1
Protection and regulation	3.9	3.4	3.2	3.0	3.0	4.5	6.1	4.3	5.1	5.3
Education	.5	.4	.4	.5	.4	.5	.4	.3	.3	.3
Highways	48.6	41.5	41.1	45.7	37.8	36.7	33.9	29.9	31.6	29.2
Charities, hospitals, and corrections	4.9	4.9	4.2	3.5	3.1	3.4	2.6	2.3	2.3	2.3
Sanitation and conservation of health	3.9	2.7	2.6	2.4	2.0	3.5	1.0	3.6	5.7	3.6
Recreation	..	..	..	..	..	..	..	..	..	.4
Miscellaneous	1.5	2.2	.8	.5	.7	1.2	.4	.8	.5	.2
Total maintenance	79.1	70.5	67.3	69.2	59.3	61.5	54.8	50.6	55.1	50.4
Capital outlays	13.8	22.6	26.2	25.2	35.0	32.8	38.9	44.0	38.8	42.9
Interest	2.8	2.5	2.3	2.1	1.9	2.2	2.0	2.3	2.6	3.1
Combined net total	95.7	95.6	95.8	96.5	96.2	96.5	95.7	96.9	96.5	96.4
Public utilities	.1	..	.1	.1	.1	.1	.1	.1	.1	.1
Debt redemption	4.2	4.4	4.1	3.4	3.7	3.4	4.2	3.0	3.4	3.5
Gross total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] 1917—129 towns representing about 12.0% of the total town population for 1915, did not report; expenditures for non-reporting towns estimated on 1915 population basis.

[2] 1918—117 towns representing about 12.9% of the total town population for 1915, did not report; expenditures for non-reporting towns estimated on 1915 population basis.

[3] 1919—39 towns representing about 3.3% of the total town population for 1915, did not report; expenditures for non-reporting towns estimated on 1915 population basis.

TABLE 7: EXPENDITURES OF NEW YORK CITY, FISCAL YEARS 1917 TO 1925

(Source: United States Bureau of the Census, "Financial Statistics of Cities" Series)

Purpose of Expenditure		1917	1918	1919	Average 1917 through 1919	1922	1923	1924	1925	Average 1922 through 1925
		Amount (in Thousands)								
General government	capital	$5,533	$700	$662	$2,298	$949	$4,549	$1,254	$6,093	$3,211
	maintenance	19,519	20,085	19,692	19,765	27,429	29,832	30,752	33,193	30,301
Protection and regulation	capital	411	1,298	759	823	1,108	1,336	2,243	2,960	1,912
	maintenance	32,450	35,811	38,178	35,479	55,342	57,686	61,319	64,256	59,651
Education	capital	2,559	2,262	2,263	2,361	13,969	21,749	58,283	44,654	34,664
	maintenance	42,929	44,796	47,759	45,162	97,012	100,917	104,042	109,454	102,857
Highways	capital	12,025	12,098	10,970	11,698	15,901	17,639	21,296	30,209	21,261
	maintenance	11,354	11,269	12,093	11,572	14,690	23,169	19,151	22,623	19,908
Charities, hospitals, and corrections	capital	747	1,416	2,433	1,532	688	368	1,991	4,093	1,785
	maintenance	13,892	15,485	17,050	15,476	24,921	24,412	25,769	24,699	24,950
Sanitation and conservation of health	capital	3,103	3,474	3,712	3,430	4,404	7,729	9,582	11,915	8,407
	maintenance	13,162	14,466	15,668	14,432	25,839	27,026	28,616	31,666	28,287
Recreation	capital	1,116	1,479	1,436	1,344	1,402	3,056	5,164	13,039	5,665
	maintenance	3,333	3,430	3,594	3,452	5,709	6,204	5,586	6,341	5,960
Miscellaneous	capital	42	2	..	15	..	..	1,948	1,462	853
	maintenance	1,676	1,795	1,519	1,663	2,462	2,851	3,016	3,233	2,891
Net total	capital	$25,536	$22,729	$22,235	$23,501	$38,421	$56,426	$101,761	$114,425	$77,758
	maintenance[2]	138,315	147,137	155,555	147,001	253,404	272,097	278,251	295,465	274,804
Interest[1]		43,340	46,713	50,142	46,732	62,082	60,954	63,587	66,338	63,240
Combined net total		$207,191	$216,579	$227,932	$217,234	$353,907	$389,477	$443,599	$476,228	$415,803
Public utilities	capital	10,445	6,269	3,255	6,656	16,171	18,402	22,936	22,931	20,110
	maintenance[2]	15,060	15,489	14,776	15,108	19,198	21,151	21,903	24,599	21,713
Debt redemption[3]		23,324	19,381	15,842	19,516	25,971	18,675	17,445	19,778	20,467
Gross total		$256,020	$257,718	$261,805	$258,514	$415,247	$447,705	$505,883	$543,536	$478,093

Percentage Distribution of Net Expenditures for Capital and Maintenance

Capital outlays	15.6	13.4	12.5	13.8	13.2	17.2	26.8	27.9	22.1
Maintenance	84.4	86.6	87.5	86.2	86.8	82.8	73.2	72.1	77.9
Net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage Distribution of Combined Net Expenditures

General government	12.1	9.6	8.9	10.2	8.0	8.8	7.2	8.2	8.1
Protection and regulation	15.9	17.1	17.1	16.7	16.0	15.1	14.3	14.1	14.8
Education	21.9	21.7	22.0	21.9	31.4	31.5	36.6	32.4	33.1
Highways	11.3	10.8	10.1	10.7	8.6	10.5	9.1	11.1	9.9
Charities, hospitals, and corrections	7.1	7.8	8.5	7.8	7.2	6.4	6.3	6.0	6.4
Sanitation and conservation of health	7.9	8.3	8.5	8.2	8.5	8.9	8.6	9.2	8.8
Recreation	2.1	2.3	2.2	2.2	2.0	2.4	2.4	4.1	2.8
Miscellaneous	.8	.8	.7	.8	.7	.7	1.1	1.0	.9
Interest	20.9	21.6	22.0	21.5	17.6	15.7	14.4	13.9	15.2
Combined net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage Distribution of Gross Expenditures

General government	9.8	8.1	7.8	8.5	6.8	7.7	6.3	7.2	7.0
Protection and regulation	12.8	14.4	14.9	14.1	13.6	13.2	12.6	12.4	12.9
Education	17.8	18.2	19.1	18.4	26.7	27.4	32.1	28.4	28.8
Highways	9.1	9.1	8.8	9.0	7.4	9.1	8.0	9.7	8.6
Charities, hospitals, and corrections	5.7	6.6	7.4	6.6	6.2	5.5	5.5	5.3	5.6
Sanitation and conservation of health	6.4	7.0	7.4	6.9	7.3	7.8	7.5	8.0	7.7
Recreation	1.7	1.9	1.9	1.9	1.7	2.1	2.1	3.6	2.4
Miscellaneous	.7	.7	.6	.6	.6	.6	1.0	.9	.8
Interest	16.9	18.1	19.1	18.1	14.9	13.6	12.6	12.2	13.2
Combined net total	80.9	84.1	87.0	84.1	85.2	87.0	87.7	87.7	87.0
Public utilities	10.0	8.4	6.9	8.4	8.5	8.8	8.9	8.7	8.7
Debt redemption	9.1	7.5	6.1	7.5	6.3	4.2	3.4	3.6	4.3
Gross total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Excludes interest on public utilities' debt.
[2] Includes interest on public utilities' debt.
[3] From annual reports of the city comptroller.

combined net expenditures during the same period represented capital outlays.

In New York City, as in other cities of the state, the maintenance, operation and extension of public utility facilities is a very important item of the city budget. In 1925, $47.5 millions, or 8.7% of the city's gross total of expenditures, were devoted to this purpose.

Expenditures of Other Cities

The public expenditures of the other fifty-nine cities in New York State amount to less than one-third of the expenditures of New York City. The major part of this difference is accounted for by the disproportion of population; the population of New York City in 1925 was more than twice as great as that of all the other cities in the state. In that year, however, New York City had a per capita net expenditure of $77.55, whereas the per capita expenditure of the other fifty-nine cities was $56.71. In the absence of a detailed classification of the expenditures of cities with populations under 30,000, an analysis of the disbursements of the nineteen New York cities with populations over 30,000 is presented in Table 8.

In general, the functional distribution of the expenditures of these cities resembles that of New York City. The proportion of capital outlays to the combined net expenditures of these cities, however, is considerably higher than in New York City. For the four-year period, 1922 through 1925, their capital outlays constituted 31.4% of the net total of their expenditures, whereas the proportion for New York City was 22.1%. Expenses for education occupied about the same relative position in the budgets of these cities as in the budget of New York City; they spent relatively more for the construction and maintenance of streets and for sanitation and conservation of health than did the metropolis, but their disbursements for general governmental purposes were lower. Since they had not accumulated a debt burden proportionately as heavy as that of New York City, their interest payments occupied a correspondingly smaller place in their budgets.

Expenditures of the Village Governments

The distribution of the net expenditures of the New York village governments, as shown in Table 9, differs markedly from that of the city governments. Educational functions of the village governments are handled by independent agencies, the school districts, so that they do not appear in the expenditure reports of the village governments. The actual expenditures of the village governments themselves for libraries and incidental educational matters amount to comparatively very little annually and are less than one per cent of the combined net total of their expenditures. On the other hand, they have incurred heavy expenditures for roadway construction and maintenance. During the last few years their capital outlays, largely for road construction, have constituted around 40% of their net expenditures. In addition, roadway maintenance has absorbed twenty per cent to thirty per cent of their net total expenditures. The other three major items of the net expenditure of the villages are police and fire protection, general governmental costs, and sanitation and conservation of health.

Expenditures for public utility enterprises are a larger item in the budgets of the villages than in those of the cities. Capital and maintenance payments for public utilities amounted to 14.2% of the gross expenditures of the villages in 1926, whereas in the case of the cities, the average for 1925 was 8.9%. Debt redemption during the last ten years has accounted for about ten per cent of the gross expenditures of village governments.

Expenditures of the School Districts Outside of Cities

The gross disbursements of New York school districts outside of cities, including their disbursements from state aid moneys, increased from $17 millions in 1917 to $60 millions in 1926. When the expenditures of these school districts are added to the expenditures of the towns and villages they serve, it is seen that a greater portion of local expenditures is devoted to education in the non-urban regions than in the cities. In 1925, 45.9% of the combined net expenditures of these non-urban governmental divisions

TABLE 8: EXPENDITURES OF NEW YORK CITIES WITH POPULATIONS

(Source: United States Bureau,

Purpose of Expenditure		1917	1918	1919	Average 1917 through 1919	1922	1923
		All cities (except New York City) over 30,000 in 1917					
							Amount (in
General government	capital	$87	$259	$438	$261	$126	$528
	maintenance	2,947	3,058	3,298	3,101	4,490	4,628
Protection and regulation	capital	623	531	737	630	1,774	600
	maintenance	7,761	8,586	9,393	8,580	13,509	14,072
Education	capital	1,777	2,035	2,954	2,255	9,958	10,309
	maintenance	10,485	11,259	12,938	11,561	26,347	29,195
Highways	capital	4,723	4,982	3,424	4,376	12,884	13,283
	maintenance	3,774	4,480	4,493	4,249	5,818	6,965
Charities, hospitals and corrections	capital	364	564	185	371	314	654
	maintenance	2,094	2,136	2,552	2,261	4,073	4,197
Sanitation and conservation of health	capital	2,490	1,860	1,230	1,860	3,259	4,524
	maintenance	4,186	4,768	5,485	4,813	7,799	8,266
Recreation	capital	201	285	326	271	648	2,041
	maintenance	1,231	1,318	1,521	1,357	2,235	2,356
Miscellaneous	capital	78	87	81	82	76	247
	maintenance	197	222	93	171	419	558
Net total	capital	$10,343	$10,603	$9,292[4]	$10,079[4]	$28,566[4]	$32,078[4]
	maintenance	32,675	35,827	39,773	36,092	64,690	70,237
Interest[1]		4,182	4,292	4,937	4,470	6,247	6,600
Combined net total		$47,200	$50,722	$54,002	$50,641	$99,503	$108,915
Public utilities	capital	1,721	1,319	1,377	1,472	3,075	4,009
	maintenance[2]	3,952	4,453	4,460	4,288	6,014	6,514
Debt redemption[3]		9,630	10,914	13,651	11,398	16,183	15,160
Gross total		$62,503	$67,408	$73,490[4]	$67,799[4]	$124,775[4]	$134,598[4]
							Percentage Distribution of Net Expen
Capital outlays		24.0	22.8	18.9	21.8	30.6	31.4
Maintenance		76.0	77.2	81.1	78.2	69.4	68.6
Net total		100.0	100.0	100.0	100.0	100.0	100.0
							Percentage Distribution of
General government		6.4	6.5	6.9	6.7	4.6	4.7
Protection and regulation		17.8	18.0	18.8	18.2	15.4	13.5
Education		26.0	26.2	29.4	27.3	36.5	36.3
Highways		18.0	18.7	14.7	17.0	18.8	18.6
Charities, hospitals and corrections		5.2	5.3	5.1	5.2	4.4	4.5
Sanitation and conservation of health		14.1	13.1	12.4	13.2	11.1	11.7
Recreation		3.0	3.2	3.4	3.2	2.9	4.0
Miscellaneous		.6	.6	.3	.5	.5	.7
Interest		8.9	8.4	9.2	8.8	6.3	6.1
Combined net total		100.0	100.0	100.0[4]	100.0[4]	100.0[4]	100.0[4]
							Percentage Distribu
General government		4.9	4.9	5.1	4.9	3.7	3.8
Protection and regulation		13.4	13.5	13.8	13.6	12.2	10.9
Education		19.6	19.7	21.6	20.4	29.1	29.4
Highways		13.6	14.0	10.8	12.7	15.0	15.0
Charities, hospitals and corrections		3.9	4.0	3.7	3.9	3.5	3.6
Sanitation and conservation of health		10.7	9.8	9.1	9.8	8.9	9.5
Recreation		2.3	2.4	2.5	2.4	2.3	3.3
Miscellaneous		.4	.5	.2	.4	.4	.6
Interest		6.7	6.4	6.7	6.6	5.0	4.9
Combined net total		75.5	75.2	73.5	74.7	79.7	80.9
Public utilities		9.1	8.6	7.9	8.5	7.3	7.8
Debt redemption		15.4	16.2	18.6	16.8	13.0	11.3
Gross total		100.0	100.0	100.0[4]	100.0[4]	100.0[4]	100.0[4]

[1] Excludes interest on public utilities debt.
[2] Includes interest on public utilities debt.
[3] From annual reports of the state comptroller.
[4] Because of duplication of items of capital expenditure in the functional distribution, the net total is less than the sum

over 30,000 (Except New York City), Fiscal Years 1917 to 1925
"Financial Statistics of Cities" Series)

			All Cities over 30,000							
1924	1925	Average 1922 through 1925	1918	1919	Average 1917 through 1919	1922	1923	1924	1925	Average 1922 through 1925
Thousands)										
$524	$1,462	$660	$263	$438	$263	$130	$529	$529	$1,475	$666
5,053	5,600	4,943	3,093	3,340	3,127	4,601	4,753	5,196	5,750	5,075
611	803	947	538	738	633	1,786	602	617	820	956
15,050	16,343	14,743	8,666	9,495	8,641	13,742	14,311	15,314	16,645	15,003
11,246	12,537	11,013	2,056	3,008	2,280	10,033	10,444	11,322	12,598	11,099
31,839	34,317	30,424	11,413	13,131	11,676	27,022	29,972	32,711	35,225	31,232
14,288	16,753	14,302	5,016	3,520	4,420	12,940	13,500	14,528	17,087	14,514
6,480	7,499	6,691	4,544	4,554	4,291	6,050	7,215	6,758	7,806	6,957
253	681	475	564	185	371	323	665	259	681	482
4,243	4,855	4,342	2,173	2,580	2,282	4,241	4,332	4,398	5,023	4,498
5,315	7,260	5,089	1,869	1,231	1,863	3,280	4,547	5,379	7,315	5,130
9,148	9,647	8,715	4,796	5,516	4,833	7,912	8,389	9,279	9,794	8,843
949	1,633	1,318	285	326	271	655	2,047	975	1,650	1,332
2,742	2,940	2,568	1,320	1,533	1,367	2,271	2,398	2,790	2,991	2,612
36	269	157	87	81	82	76	247	36	269	157
328	278	396	227	95	173	423	578	339	284	406
$33,116[4]	$41,398	$33,789[4]	$10,678	$9,444[4]	$10,155[4]	$28,750[4]	$32,473[4]	$33,539[4]	$41,895	$34,164[4]
74,883	81,479	72,822	36,232	40,244	36,384	66,262	71,948	76,785	83,518	74,628
7,886	8,378	7,278	4,337	4,996	4,505	6,356	6,719	8,012	8,562	7,412
$115,885	$131,255	$113,889	$51,247	$54,684	$51,044	$101,368	$111,140	$118,336	$133,975	$116,204
5,954	7,133	5,042	1,327	1,395	1,481	3,400	4,453	6,342	7,453	5,412
6,709	6,959	6,549	4,524	4,546	4,341	6,150	6,676	6,918	7,139	6,721
13,019	14,883	14,811	10,953	13,771	11,451	16,344	15,303	13,102	14,989	14,934
$141,567[4]	$160,230	$140,291[4]	$68,051	$74,396[4]	$68,317[4]	$127,262[4]	$137,572[4]	$144,698[4]	$163,556	$143,271[4]
ditures for Capital Outlays and Payments for Maintenance										
30.7	33.7	31.7	22.8	19.0	21.8	30.3	31.1	30.4	33.4	31.4
69.3	66.3	68.3	77.2	81.0	78.2	69.7	68.9	69.6	66.6	68.6
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Combined Net Expenditures										
4.8	5.4	4.9	6.5	6.9	6.6	4.7	4.8	4.8	5.4	4.9
13.5	13.0	13.8	18.0	18.7	18.2	15.3	13.4	13.5	13.0	13.7
37.2	35.7	36.4	26.3	29.5	27.4	36.6	36.4	37.2	35.7	36.4
17.9	18.5	18.4	18.7	14.8	17.1	18.7	18.6	18.0	18.6	18.5
3.9	4.2	4.2	5.3	5.1	5.2	4.5	4.5	3.9	4.2	4.3
12.5	12.9	12.1	13.0	12.3	13.1	11.0	11.6	12.4	12.8	12.0
3.2	3.5	3.4	3.1	3.4	3.2	2.9	4.0	3.2	3.5	3.4
.3	.4	.5	.6	.3	.5	.5	.7	.3	.4	.5
6.8	6.4	6.4	8.5	9.1	8.8	6.3	6.1	6.8	6.4	6.4
100.0[4]	100.0	100.0[4]	100.0	100.0[4]	100.0[4]	100.0[4]	100.0[4]	100.0[4]	100.0	100.0
tion of Gross Expenditures										
3.9	4.4	4.0	4.9	5.1	5.0	3.7	3.8	4.0	4.4	4.0
11.1	10.7	11.2	13.5	13.7	13.6	12.2	10.9	11.0	10.7	11.1
30.4	29.2	29.5	19.8	21.7	20.4	29.1	29.4	30.4	29.3	29.5
14.7	15.1	15.0	14.0	10.9	12.7	14.9	15.1	14.7	15.2	15.0
3.2	3.5	3.4	4.0	3.7	3.9	3.6	3.6	3.2	3.5	3.5
10.2	10.6	9.8	9.8	9.1	9.8	8.8	9.4	10.1	10.5	9.7
2.6	2.9	2.8	2.4	2.5	2.4	2.3	3.2	2.6	2.8	2.8
.3	.3	.4	.5	.2	.4	.4	.6	.3	.3	.4
5.6	5.2	5.2	6.4	6.7	6.6	5.0	4.9	5.5	5.2	5.2
81.9	81.9	81.2	75.3	73.5	74.8	79.6	80.8	81.7	81.9	81.1
8.9	8.8	8.3	8.6	8.0	8.5	7.5	8.1	9.2	8.9	8.5
9.2	9.3	10.5	16.1	18.5	16.7	12.9	11.1	9.1	9.2	10.4
100.0[4]	100.0	100.0[4]	100.0	100.0[4]	100.0[4]	100.0[4]	100.0[4]	100.0[4]	100.0	100.0[4]

of the individual items.

4

TABLE 9: EXPENDITURES OF THE NEW YORK VILLAGES, FISCAL YEARS 1917 TO 1926

(Source: Annual Reports of the Comptroller)

Purpose of Expenditure	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
General government	$631	$649	$723	$803	$992	$1,071	$1,250	$1,431	$1,610	$1,977
Protection and regulation	1,197	1,205	1,306	1,487	1,887	2,109	2,258	2,807	3,187	3,346
Education	91	50	99	67	129	143	180	247	139	229
Highways	2,490	2,565	2,591	3,055	3,440	4,026	4,142	4,671	4,855	5,367
Charities, hospitals, and corrections	..	..	..	..	..	..	..	..	..	..
Sanitation and conservation of health	585	541	571	712	954	951	999	1,095	1,357	1,514
Recreation	65	61	72	123	116	140	136	174	215	223
Miscellaneous	136	148	126	104	122	139	168	117	162	317
Total maintenance	$5,195	$5,219	$5,488	$6,351	$7,640	$8,579	$9,133	$10,542	$11,525	$12,973
Capital outlays	3,066	2,316	1,304	2,942	3,369	4,635	6,977	8,015	9,921	9,485
Interest	763	783	814	783	847	857	999	1,201	1,448	1,659
Combined net total	$9,024	$8,318	$7,606	$10,076	$11,856	$14,071	$17,109	$19,758	$22,894	$24,117
Public utilities	1,874	2,266	2,537	2,640	3,474	3,505	3,636	4,174	4,086	4,561
Debt redemption	1,426	1,661	1,603	1,764	1,842	2,093	2,193	2,620	2,850	3,536
Gross total	$12,324	$12,245	$11,746	$14,480	$17,172	$19,669	$22,938	$26,552	$29,830	$32,214
Percentage Distribution of Combined Net Expenditures										
General government	7.0	7.8	9.5	7.9	8.4	7.6	7.3	7.2	7.0	8.2
Protection and regulation	13.3	14.5	17.2	14.8	15.9	15.0	13.2	14.2	13.9	13.9
Education	1.0	.6	1.3	.7	1.1	1.0	1.1	1.2	.6	1.0
Highways	27.5	30.8	34.1	30.3	29.0	28.6	24.2	23.7	21.2	22.2
Charities, hospitals, and corrections	..	..	..	..	..	..	..	..	..	..
Sanitation and conservation of health	6.5	6.5	7.5	7.1	8.0	6.8	5.8	5.5	5.9	6.3
Recreation	.7	.7	.9	1.2	1.0	1.0	.8	.9	.9	.9

Miscellaneous	1.5	1.8	1.7	1.0	1.0	1.0	1.0	.6	.7	1.3
Total maintenance	..	..	..	..	..	..	..	..	..	..
Capital outlays	34.0	27.9	17.1	29.2	28.4	32.9	40.8	40.6	43.4	39.3
Interest	8.5	9.4	10.7	7.8	7.2	6.1	5.8	6.1	6.4	6.9
Combined net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage Distribution of Gross Expenditures										
General government	5.1	5.3	6.2	5.5	5.8	5.4	5.4	5.4	5.4	6.1
Protection and regulation	9.7	9.8	11.1	10.3	11.0	10.7	9.8	10.6	10.7	10.4
Education	.7	.4	.8	.5	.8	.7	.8	.9	.5	.7
Highways	20.2	21.0	22.1	21.1	20.0	20.5	18.1	17.6	16.3	16.7
Charities, hospitals, and corrections	..	..	..	..	..	..	..	..	..	..
Sanitation and conservation of health	4.8	4.4	4.9	4.9	5.6	4.8	4.4	4.1	4.6	4.7
Recreation	.5	.5	.6	.9	.7	.7	.6	.7	.7	.7
Miscellaneous	1.1	1.2	1.1	.7	.7	.7	.7	.4	.5	1.0
Total maintenance	42.1	42.6	46.8	43.9	44.6	43.5	39.8	39.7	38.7	40.3
Capital outlays	24.9	18.9	11.1	20.3	19.6	23.6	30.4	30.2	33.2	29.4
Interest	6.2	6.4	6.9	5.4	4.9	4.4	4.4	4.5	4.8	5.1
Combined net total	73.2	67.9	64.8	69.6	69.1	71.5	74.6	74.4	76.7	74.8
Public utilities	15.2	18.5	21.6	18.2	20.2	17.8	15.9	15.7	13.7	14.2
Debt redemption	11.6	13.6	13.6	12.2	10.7	10.7	9.5	9.9	9.6	11.0
Gross total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

went to education; for the cities over 30,000 (except New York City) the proportion in this year was 35.7%.

During the period 1917 to 1926, there were several changes in the character of the expenditures of the school districts outside of cities, as shown in Table 10. In the first place, capital outlays for construction purposes, which were sharply limited in 1918 and 1919, increased both absolutely and in proportion to other school expenditures thereafter. In 1925, $16 millions, or 27.9% of the combined net total of school district expenditures, went to capital outlays; in 1926 the figure declined to $13 millions. The greater part of these capital outlays were financed by loans. Consequently, the indebtedness of the school districts has increased markedly in recent years,[1] and as the total debt has increased, interest payments have risen. A high mark of over three million dollars for interest payments was reached in 1926, in which year this item constituted 5.3% of the combined net total of school district expenditures.

School district bonds are in serial form. Consequently, as the indebtedness of these districts increases, the annual quota of the debt redemption must increase. Every year has seen an increase in the figure for school district debt redemption. In 1926, it was $2,230,000 as compared with $786,000 in 1917. In 1926, this item represented 3.7% of the gross expenditures of the New York school districts.

The Growth of State and Local Expenditures

During the ten-year period 1917 through 1926, the public expenditures of the state and local governments of New York increased both in absolute amount and in relation to population and income. There were four main reasons for the growth of New York's public expenditure during this period: (1) decreasing dollar values during the first half of the decade; (2) expansion of existing governmental functions; (3) addition of new governmental functions; and (4) waste and extravagance in the exercise of both new and old functions.

[1] See pp. 47–49 of this volume.

TABLE 10: EXPENDITURES OF NEW YORK SCHOOL DISTRICTS OUTSIDE OF CITIES, SCHOOL YEARS 1917 TO 1926

(Source: Annual Reports of Department of Education, University of New York State)

Purpose of Expenditure	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
School maintenance	$13,992	$15,980	$17,065	$21,470	$28,160	$30,016	$32,731	$35,860	$38,797	$41,666
Capital outlays	1,750	1,619	1,045	3,068	5,053	6,575	9,923	14,236	16,108	13,082
Interest	622	666	620	718	807	960	1,566	2,097	2,883	3,054
Combined net total	$16,364	$18,265	$18,730	$25,256	$34,020	$37,551	$44,220	$52,193	$57,788	$57,802
Debt redemption	786	819	822	845	964	1,106	1,281	1,604	1,995	2,230
Gross total	$17,150	$19,084	$19,552	$26,101	$34,984	$38,657	$45,501	$53,797	$59,783	$60,032
Percentage Distribution of Combined Net Expenditures										
School maintenance	85.5	87.5	91.1	85.0	82.8	79.9	74.0	68.7	67.1	72.1
Capital outlays	10.7	8.9	5.6	12.2	14.8	17.5	22.5	27.3	27.9	22.6
Interest	3.8	3.6	3.3	2.8	2.4	2.6	3.5	4.0	5.0	5.3
Combined net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage that Debt Redemption is of Gross Expenditures										
Per cent	4.6	4.3	4.2	3.2	2.8	2.9	2.8	3.0	3.3	3.7

Changes in Dollar Values

Fluctuations in the purchasing value of the dollar were very marked during the first half of the decade 1917 through 1926, but were of relatively inconsiderable importance during the second half. From January, 1917 to June, 1920, the Snyder index of prices increased from 128 to 199. After a sharp drop in 1920–1921, the fluctuations of this index have been within the limits 160 to 173. As the purchasing value of the dollar declined from January, 1917 through June, 1920, it was unavoidable that the cost to state and local governments of identical materials and services should also increase. The trend of nominal expenditures from 1917 through 1920 is therefore not representative of the actual development of governmental activity during this period.

Such rapid and extensive fluctuations in the value of the dollar are not likely to occur in the near future. The increase of New York's public expenditures from this cause, therefore, is a matter of historical interest and not an issue of immediate importance for the present or near future.

Expansion of Governmental Functions

The second factor determining the increase of public expenditures in New York during this ten-year period was the expansion of governmental functions already exercised by the state and local governments in New York. The two most marked illustrations of this expansion are the recent improvements of New York's school system reflected in the doubling of the school maintenance expenditures of the state and local governments between 1920 and 1925, and in the growth of the state and local highway bill from $57 millions in 1921 to $84 millions in 1925. In addition, recent years have seen a similar though not so extensive expansion of all other governmental functions.

New Governmental Functions

The third factor tending to increase public expenditures in New York is the addition of new governmental functions to those already exercised. This has taken place particularly in the field of regulatory and social welfare activities.[1] A

[1] See Appendix B of this volume.

single example will illustrate the operation of this factor. In 1924, 28% of the operating expenses of the New York state government represented new activities or new functions undertaken since 1880, such as the activities of the Department of Agriculture and the regulation of working conditions; and an additional 13% represented activities or functions taken over from the local governments (principally, the care of the insane and epileptics); 38% represented state aid; and 21% represented activities antedating 1880, such as institutional care and water transport with their normal expansion.[1]

The Problem of Waste and Extravagance

The increase of New York's state and local expenditures resulting from the decline of money values during the war and post war years was inevitable. Expenditure increases arising from the expansion or increase of governmental functions are matters of legislative policy, subject to approval or censure according to the merits or demerits of the specific items of expenditure. Such part of the increase of public expenditures as result from waste and extravagance arising out of inefficient governmental organization, lack of foreplanned expenditure, and fraud or graft, however, can and should be checked and controlled. Where faulty organization of administrative departments is responsible, the remedy is carefully planned reorganization. Where the frailties of human nature in politics are to blame, checks upon this frailty must be sought and put into effect.

Administrative Reorganization

The realization that a large part of the administrative machinery of the state and local governments is antiquated and unfitted to present-day necessities and wasteful in its operation has impressed itself upon students of government and upon the officials charged with the conduct of public affairs. Full consideration of the problems and issues of such reorganization belongs more properly to a treatise on government than to a survey of the problems and issues of the public

[1] New York Legislative Document, 1926, No. 68, pages 65–66.

finances of a state and its subdivisions; therefore in the following pages, only those aspects of governmental reorganization in New York which effect economies in public expenditure are discussed.

Reorganization of the State Government

In about a dozen states since 1916, as a result of reports by efficiency and economy commissions, movements have developed for the reorganization and consolidation of state administrative services. This issue has played a prominent part in New York's recent political history.[1] An unsuccessful attempt to reorganize New York's state government was first made in 1915. In 1919, a special committee submitted plans for reorganization, and since then this subject has been a perennial issue before the state legislature. The consolidation of state agencies into eighteen departments went into effect on January 1, 1927, and it is too early to ascertain what have been the savings, if any, of this first step in state administrative reorganization.

The essence of these programs for administrative reorganization is the concentration of fuller responsibility in a single personal head—the Governor of the State. A corollary of such reorganization is greater efficiency and economy in the conduct of the state's business through careful grouping of related functions, improved internal organization of departments, the abolition of unnecessary offices, and the elimination of duplication of effort. Much has already been accomplished towards these ends in New York during the past decade, but large portions of this labor of state reorganization still remain incomplete. All possible dispatch in the fulfillment of this laudable reform should be urged, as every delay represents a loss of public funds through uncorrected waste and inefficiency.

County and Town Reorganization

After a survey of county and town government in New York, the Special Joint Committee on Taxation and Retrenchment concluded that "on the whole, town and county government in the State of New York is not working satis-

[1] See New York Committee on Reconstruction Report, 1919, p. 233 ff.

factorily."[1] The exhibits of inefficient and unbusinesslike organization presented in the report of this Committee constitute, without any comment, a scathing criticism. There is no reason to disbelieve the Committee when it charges that millions are lost annually to New York taxpayers through the waste and inefficiency of town and county governments.

Town organization today is almost identical with that of 1691. In two and a quarter centuries the only significant changes have been the addition of two offices, the town auditor and the town health officer, to the town government. The county governments have experienced a greater expansion of functions than have the town governments, but they are still essentially the same as they were in 1777.

In the opinion of the Special Joint Committee on Taxation and Retrenchment, the uniformity of organization and form which has hitherto characterized New York county government should be ended. Their problems, as determined by size and concentration of population, differ too markedly to permit of stereotyped handling. The Committee proposes classification with a mandatory form of organization for each class.[2]

The Committee believes, moreover, that many of the functions now exercised by the towns, such as health and tax administration and roadway construction and maintenance, could be more effectively and efficiently handled by county officials. County centralization of one of these town functions, that of tax administration, is given special consideration in a latter chapter of this study. The arguments for county centralization of this town function, greater technical efficiency and removal from local political control, apply also to centralization of many of the other functions at present exercised by the towns.

Reorganization of City and Village Government

The villages and particularly the cities of New York, by reason of their rapid growth, have never been able to escape

[1] New York Legislative Document, 1923, No. 55, p. 21.

[2] *Ibid.*, pp. 41–42.

the necessity of constant reconsideration of their systems of government so as to harmonize them with their ever changing status. As recently as 1927, the Village Law of the state was revised to take into account the changed necessities of village government. The large cities are consistently faced with problems of reorganization. A City Committee on Plan and Survey is at present considering the administrative organization of New York City. There is no single panacea for the difficulties of city government; each city must to a large extent work out its own problem.

Budgetary Reform

If the business of government is run on "cash and carry" principles, carelessness and laxity in the appropriation and outlay of public funds are certain to develop. All expenditures, capital as well as maintenance, should be foreplanned. The authorization of public expenditures should not be a matter of legislative whim; legislative bodies should exercise their prerogative of authorization only within the limits set by budgetary determination. Budgetary foreplanning of public expenditures is among the most effective checks to governmental extravagance. These principles have been incorporated into the administrative organization of the Federal Government; they have made much headway with the state governments; they still await recognition by local governments.

A constitutional amendment adopted in November, 1927, provided for a state executive budget which will be binding upon the Legislature of 1929. At present all first-class New York cities operate under independent budgets. Second class cities operate under a uniform budget law. The 1927 Village Law provided that villages must draw up annual estimates of their projected expenditures, but these estimates can hardly claim to be formal budgets. No budgetary requirements are set for the counties and towns. It should be noted, however, that the mandatory budgeting of city expenditures is still of a very loose character. A recent investigating committee reported:

> "New York City has no budget. . . The estimates contain certain elements of a budget, but the official

> document which is known as 'the budget' is not a budget at all. It is merely an itemized appropriation bill. Nor is there any other document or series of documents meeting the requirements of a budget."[1]

While half a budget is better than no budget, it is not a substitute for a full budget. There is room for improvement in the system of city budgets, and budgets for the towns and counties should be made mandatory.

The general tendency is to exclude capital outlays from budgetary consideration. This is an unfortunate development, particularly in view of the great proportion of total expenditures devoted to capital outlays. Moreover, it increases the temptation to finance outlays of a recurrent character by borrowing instead of out of current revenues. Governmental bodies, and particularly growing cities, should prepare their programs of capital expenditure in advance for a period of five to ten years, setting forth year by year the anticipated capital expenditures which growth and development are likely to demand. Granted that the difficulties of such procedure are great, a number of western cities, among them Detroit and Kalamazoo in Michigan and Bluefield in West Virginia, have drawn up programs foreplanning their capital expenditures for five-year to ten-year periods. It is not beyond possibility for the New York cities to do so.

Central Control of Local Finances

A formalized and responsible budgetary procedure imposed on local governments would eliminate many of the present possibilities of governmental extravagance by binding administrative departments to foreplanned expenditure programs. It would be no guarantee, however, that these authorized expenditures in themselves would be wise or necessary, or that the projects would be wisely and conservatively financed. Public attention usually centers on the activities of the Federal and state governments to the

[1] Subcommittee on Budget, Finance and Revenue of the City Committee on Plan and Survey, "The Finances and Financial Administration of New York City," 1928.

exclusion of local governments, and a traditional irresponsibility still clings to the functions of local councils and officials. In many cases, moreover, errors of judgment, caused by lack of financial experience, and not wilfulness, are to blame. Local governments with their narrow spheres of activity and lower salary schedules cannot attract legislative and administrative servants of equal calibre to those of the state and Federal governments. Even the most wisely managed local governments sometimes embark upon ill-considered projects for capital construction. These projects are usually financed by loans and they do not represent an immediate tax burden upon the voters of the district who are therefore inclined to be liberal. As a consequence of these tendencies in local finance, there has developed a movement to bring the fiscal activities of these local governments directly or indirectly under the control or supervision of central authorities.[1]

There are two types of agencies which can exercise central control over local finances. The first is a state board of control; the second, county boards of control. Indiana, Colorado and New Mexico have provided for the former type of local fiscal control; Oregon (to a limited extent), Oklahoma and Ohio for the latter. Where it is considered preferable to center such fiscal control in a state body, the tax commission is the logical agency to exercise such authority. If county boards of control are considered preferable, these should be appointed rather than elected or *ex officio*, since the necessary detachment from political influence is lacking in the two latter cases.

The advantages of a state body of fiscal control or review are that it is not dominated by local political influences and that its members are more likely to have the necessary technical skill and equipment. The advantage of a system of county boards is that their members would be in closer touch with local needs and local conditions.

There is no rule of thumb to determine the proper scope of centralized control over local finances. In Indiana, the State Board of Tax Commissioners has full power to affirm

[1] A full discussion of this development will be found in National Industrial Conference Board, "The Fiscal Problem in Illinois," New York, 1927, Chapter II.

or decrease tax levies and bond issues on appeal by groups of taxpayers affected. In New Mexico, the State Tax Commission has full power of review and control over local budgets, and in addition any tax levy exceeding that of the preceding year by more than 5% must be approved by the Commission. The county excise boards in Oklahoma also have full control over the finances of the localities under their jurisdiction. A more limited system of control is found in Colorado. The State Tax Commission of that state has the power of approval or disapproval of local levies exceeding those of the preceding year by more than 5%, but its disapproval may be overridden by local vote. In Ohio, the decision of county boards of review may be appealed to the State Tax Commission.

Possibility of Applying Central Control of Local Finances to New York State

Experience with central control of local finances has been too short in those states which have tried the experiment to draw hard and fast conclusions. All available evidence, however, points to a considerable checking of local expenditures, tax levies and borrowings: in Multnomah County, Oregon, for instance, the Tax Supervising and Conservation Commission has over a period of seven years disallowed tax levies totaling $3,500,000.[1]

There is no reason why New York would not obtain the same benefits from a system of central control of local finances as these other states. In view of the efficient organization of the state Department of Taxation and Finance, and since there are not even rudimentary elements of any county organizations adapted to such responsibility, it would probably be wisest to center such powers in the Department of Taxation and Finance.

If centralized control of local finances for New York were decided upon, the scope of such control would be a matter for legislative determination. A half-way system, such as is found in Colorado, is anomalous, but might prove temporarily expedient in view of the strong sentiment for local self-

[1] C. C. Ludwig, "Oregon Tax Commission Saves $3,500,000 in Seven Years," *Tax Digest*, Vol. VI, March, 1928, p 84.

government in New York. It might be the way of practical wisdom to make preliminary provision for advisory review by the Department of Taxation and Finance of local capital expenditures financed by bond issues. Such issues at present must be approved by local vote, but it is notorious that the vote upon them is little dictated by reason. It would be a step forward to give to each voter an opportunity to examine the expert opinion of a board of review before casting his ballot.

Such half-way measures, however, while they may be for the time being expedient for political reasons, do not reach the root of the problem—the irresponsibility or well-meaning incapacity of local councils and officials. Only a complete supervisory power located in a central board of review, operating either automatically or on appeal by interested taxpayers, can cope fully with the issue.

CHAPTER II

STATE AND LOCAL BORROWING AND INDEBTEDNESS

ONE of the marked current tendencies of American public finance is the growing proportion of capital outlays to the total of public expenditures. Thus, in New York the proportion of capital outlays to combined net expenditures increased from 17.5% to 27.1% between 1917 and 1925. Since these capital projects are highly expensive and since their benefits continue over a long period of time, they are usually financed by borrowing instead of being paid out of current tax revenues. In New York, as in other states, there has been heavy borrowing and a rapid increase of bonded indebtedness in recent years, and this debt has become one of the state's major fiscal problems.

Constitutional and Statutory Limitations on Public Borrowings

Loan financing has several unfortunate consequences. It is easier and less irritating to borrow money for public purposes than to raise it by levying taxes. Consequently, there is greater inducement—or less check—to extravagance in projects of a capital nature than in ordinary current expenditures. Moreover, the ease of borrowing has sometimes tempted local governments to borrow to cover deficiencies in their ordinary budgets, if not directly through bond issues, then indirectly through short-term loans which have to be funded later through bond issues. The unchecked and untrammeled exercise of the borrowing power by state and local governments might result in dangerous extravagance. New York, like other states, has guarded against these dangers by incorporating limitations on state and local borrowing powers in its Constitution and in statutes.

Limitations on the State Government's Borrowing Power

Within the limitations set by the Federal and state constitutions, the state legislature is law unto itself. Statutory limitation of the state government's borrowing power would provide no effective check to extravagance. A limiting statute passed by one legislature could later be repealed by it or by a subsequent legislature. Any restriction on the state government's borrowing must be incorporated in the Constitution to be effective.

Sections 2 and 3 of Art. VII of the New York Constitution give the legislature outright power to contract long-term indebtedness only "to repel invasions, suppress insurrection, or defend the State in war." State bond issues for any other purpose, by provision of Section 4 of the same Article, must receive the ratification of the electorate at the polls. This same section provides that the bonds must be in serial form, that their maturity must coincide with the probable life of the improvement, that in any case the final maturity must not be longer than fifty years, and that the payment of the first instalment must occur within a year of the date of issue.

Subsequent Sections of Art. VII make other specific qualifications. All state bond issues since 1920, have been serial in form, but bonds of the older, non-serial issues are still outstanding. Section 5 of this Article provides for the maintenance of a sinking fund until these older issues are redeemed. Section 11 provides that, if the legislature fails to make provision for interest on the state debt or for its due retirement, these charges shall have a first claim on the general fund revenues. Sections 12, 13, 14 and 15 provide for the incurring of state indebtedness for highways, for a soldiers' bonus, for the elimination of railway grade crossings, and for public buildings. No limitation is placed upon the amount of highway debt that may be incurred, but all proposed borrowings must be submitted to public vote. The amount of soldiers' bonus debt that can be incurred is set at $45 millions. A debt of $300 millions can be incurred for the elimination of dangerous railway crossings. By legislation under a constitutional amendment ratified in November, 1927, the railway companies are to bear one-half the cost of this project, the state government 40%, and the counties

10%. The $300 millions of state debt authorized for this purpose is to cover so much of the railway crossing elimination expenditures by the state government, by the railroad companies and by the counties as are financed by borrowing. Section 14 directs the legislature to provide "for repayment to the State of moneys advanced in aid of railroad companies, counties, and cities, at such times, in such manner and with interest at such rate, that the State shall be able to pay when due the portion of the State debt equal to the proceeds which shall have been so advanced, and interest thereon"; in effect, the state government will underwrite with its credit the borrowings of the railway companies and the counties for railway crossing elimination. Section 15 permits the state government to borrow up to ten million dollars annually until 1935 for the construction of public buildings. The usual prohibition against using the state's credit to underwrite any private undertaking is found in Section 9 of Art. VIII of the Constitution.

Constitutional Restriction upon Local Borrowing Powers

Section 10 of Art. VIII of the New York Constitution prohibits any local government from using its credit to underwrite private enterprises. It provides that the bonded debt of counties and of cities must not exceed 10% of their assessed valuations. Self-supporting indebtedness, such as that for transit facilities and docks, and water-supply bonds maturing within twenty years and with adequate sinking fund provisions are excepted from this limitation. A constitutional amendment adopted in November, 1927 provided that the special assessment bonds of three cities providing a revolving fund, and $300,000,000 rapid transit indebtedness of New York City should be excepted from the 10% limitation. When a city and a county or counties are coterminous, the joint limitation, which would be 20%, is extinguished, and a single limitation of 10% applies; only New York City is affected by this provision.

Statutory Provisions Affecting Local Borrowing Powers

The statutory provisions affecting local borrowing powers are in a state of extreme confusion.[1] The 10% constitutional

[1] New York Legislative Document, 1923, No. 55, p. 197.

limitation on counties and cities is, of course, an inflexible restriction. By their charters, many cities are further limited as to the rate of interest they may charge, but the General Municipal Law, Section 21, absolves these cities of their interest limitations in the case of issues authorized or required by legislative enactment, as long as the interest paid does not exceed the legal rate.

By the Village Law, a 10% limitation is set on the borrowing power of villages; their bonds must be in serial form, their interest rate cannot exceed 6%, and they must not be sold below par. The County Law places a 10% limitation on town indebtedness, but provides that a local vote may raise this limitation to 33⅓%; where special authority has been granted by the legislature, towns may incur indebtedness even beyond this 33⅓% limitation. There are no statutory restrictions on the borrowing powers of school districts or special districts.

State and Local Borrowings

Since the war, the Federal Government has been rapidly reducing the total of its debt, while the state and local governments of the country have been rapidly incurring new debts. New York has been no exception to this tendency. During these years the state and the local governments have been paying off instalments of old debts and building up sinking funds. New borrowings have greatly exceeded these debt redemptions, however, and between 1917 and 1926 the net bonded debt of the state and local governments of New York increased rapidly.

The Trend in State and Local Borrowings

In Table 11 and Chart 3 are shown the gross borrowings[1] of the New York governments from 1918 to 1926, classified by the borrowing agency. The total of new loans during this period was $1,177 millions.

As soon as the Federal Government entered upon its war finance program in 1917, it appealed to the state and local governments to restrict their capital expenditures and

[1] Including refunding issues.

to reduce their borrowings to a minimum in order to free a maximum of the country's credit for war financing. The prevailing high interest rates acted as a further discouragement to public borrowing. In New York State, only $16.5 millions were raised through loans in 1918, $31.3 millions in 1919, and $31.5 millions in 1920.

With the pressure of federal borrowing removed after the War and with lower interest rates prevailing, many state and

TABLE 11: NEW YORK STATE AND LOCAL BOND ISSUES DISTRIBUTED ACCORDING TO BORROWING AGENCIES, FISCAL YEARS 1918 TO 1926

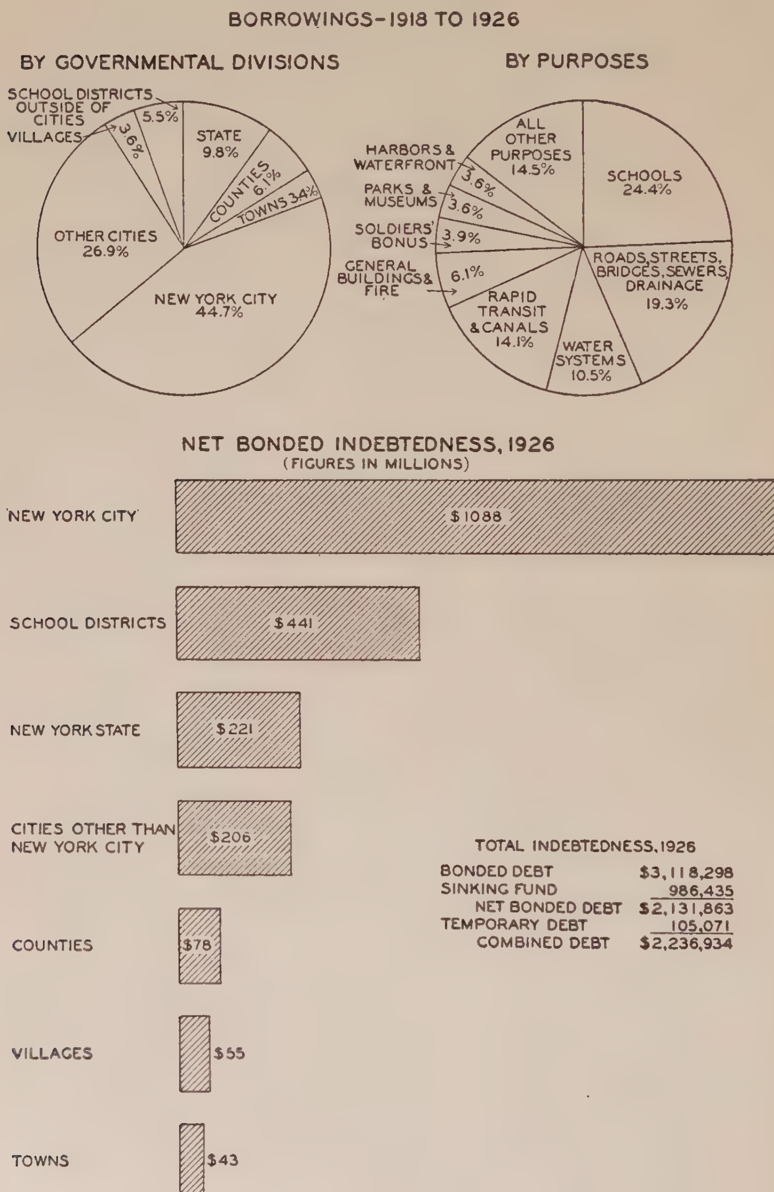
(Source: Annual Reports of the Comptroller)

Years	Total[1]	State	Counties	Towns	New York City	All Other Cities	Villages	School Districts outside of Cities
				Amount (in Thousands)				
1918	$22,500	..	$1,273	$870	$2,327	$15,403	$2,025	$602
1919	32,981	..	1,197	657	7,710	21,684	977	755
1920	39,176	..	2,378	1,232	6,324	22,461	3,527	3,253
1921	183,327	$31,800	4,107	1,974	108,618	29,512	3,116	4,201
1922	123,361	..	8,599	3,062	48,264	49,929	4,745	8,762
1923	84,053	..	7,776	4,574	11,000	43,197	6,057	11,449
1924	283,179	57,500	18,184	9,721	136,507	41,532	7,178	12,557
1925	202,813	..	12,383	11,112	109,233	49,651	8,216	12,218
1926	234,429	28,475	17,390	8,333	109,088	50,379	8,054	12,711
1918–1926 Total[1]	$1,205,820	$117,775	$73,287	$41,535	$539,071	$323,749	$43,896	$66,507
Percentage distribution	100.0	9.8	6.1	3.4	44.7	26.9	3.6	5.5

[1] The totals are not always the exact sums of their component items because of the rounding out of the figures to the nearest thousand.

local governments ran riot in expanding their debts. Not all of the increase of borrowing that resulted should be considered extravagant. There was much pending construction which had been postponed during the war period and was rushed after 1920. Moreover, road and school construction made greater demands, as new and higher standards were established in these fields. New York State was influenced by these factors. In 1921, $137.3 millions were borrowed through public bond issues. In 1924, the high mark of $277 millions was reached. In 1926, the most recent year for which figures are available, $248.9 millions were borrowed.

Chart 3: New York State and Local Borrowings, 1918 to 1926, and Indebtedness, 1926
(National Industrial Conference Board)



State and Local Borrowings Classified by Borrowing Agencies

The cities, towns and villages are the largest borrowers in New York. Of the $1,177 millions borrowed during the ten-year period 1917 through 1926, $893.6 millions, or 75.9%, was borrowed by these municipalities. Four loans made by the state government during this period, which totaled $142.8 millions, represented 12.1% of the combined total. County loans constituted 5.5%, and school district loans 6.5% of the total.

It should be noted that the loans of urban municipalities and towns in New York represent a much larger proportion of the total debt than the average for all the states. For the four years, 1923 through 1926, the country-wide average of the loans of this group of local governments was 56.3%,[1] as against New York's 75.9%. Consequently the relative proportions of borrowing of the state governments, of the counties and of the school districts in New York were considerably below the averages for the country, which were respectively 14.8%, 15.5% and 13.4%.

State and Local Borrowings Classified by Purposes of Loans

The purposes for which the state and local governments of New York made these borrowings from 1917 to 1926 are shown in Table 12. The largest single item was the construction and equipment of school buildings. Of a net total of $1,167.6 millions[2] borrowed during these years, $285.4 millions, or 24.4%, was for this purpose.

The construction of roads, streets and bridges came second as a cause for borrowing, and $186.8 millions, or 16%, was borrowed for this purpose. Rapid transit facilities and ferries and canals accounted for 14.1% of the total debt incurred between 1917 and 1926, while the construction of water supply systems accounted for 10.5%.

The Prospect of Future Borrowings

There is no regular foreplanning of local capital construction that would permit any estimate of the amount of prob-

[1] National Industrial Conference Board, "The Cost of Government in the United States, 1925–1926," New York, 1927, p. 52.

[2] Exclusive of refunding issues.

Table 12: New York State and Local Bond Issues, Distributed According to Purposes of Loans, Calendar Years 1917 to 1926

(Source: *The Commercial and Financial Chronicle*)

Year	Total [1,5]	Water	Roads, Streets and Bridges	Sewers and Drainage	Schools and School Buildings	General Buildings and Fire	Parks and Museums	Electric Light and Gas	Funding	Improvement	Soldiers' Bonus	Flood Prevention	Harbor and Water-front	Rapid Transportation, Ferries and Canals	Miscellaneous
	Amount (in Thousands)														
1917....	$104,994.2	$7,878.8	$25,461.9	$1,655.7	$4,867.8	$6,410.9	$5,725.5	$21.0	$1,756.5		..	..	..	$49,513.0	$1,703.1
1918....	15,685.3	2,001.7	2,697.6	1,499.7	2,911.6	1,067.8	106.5	37.0	389.3		..	..	..	..	4,974.0[2]
1919....	31,008.9	3,432.5	5,756.0	1,630.2	5,596.5	1,810.0	1,699.0	35.0	2,822.1		..	..	..	..	8,227.6[3]
1920....	27,830.5	1,886.8	7,323.7	990.6	6,880.6	1,670.7	201.5	857.3	1,415.9		..	..	..	..	6,603.4[3]
1921....	137,067.3	2,637.3	30,732.5	2,866.1	18,170.2	5,544.8	5,382.0	343.8	$27.6	$5,749.0	..	..	$154.0	63,326.0	2,133.8
1922....	103,799.0	25,888.2	12,071.5	3,204.9	20,163.8	4,353.6	1,095.5	265.0	140.0	7,764.2	..	..	27,237.8	802.5	812.0
1923....	53,198.3	7,219.7	9,790.1	3,497.3	18,623.3	4,647.2	791.5	463.5	110.0	5,961.8	..	..	820.0	730.0	544.0
1924....	276,528.8	35,184.0	15,136.1	5,615.9	79,772.6	19,963.9	5,016.6	239.0	149.5	49,175.6	$45,000.0	$250.0	1,473.5	17,795.0	1,757.1
1925....	169,582.8	7,427.1	16,443.0	9,433.5	79,892.9	10,596.5	3,330.9	162.0	408.8	30,486.7	..	..	8,595.0	2,375.0	431.4
1926....	247,869.8	29,410.7	61.372.1	7,670.4	48,479.4	15,176.8	18,763.0	640.0	181.1	32,531.2	..	..	3,450.0	29,913.0	282.0
1917–1926 Total[5].	$1,167,564.9	$122,967.1	$186,784.5	$38,064.3	$285,358.7	$71,242.2	$42,112.0	$3,063.6	$139,069.3		$45,000.0	$250.0	$41,730.3	$164,454.5	$27,468.4
Percentage distribution...	100.0	10.5	16.0	3.3	24.4	6.1	3.6	.3	11.9		3.9	[4]	3.6	14.1	2.3

[1] Does not include refunding bond issues.
[2] Consists mostly of bonds issued for deficiency, tax relief, voting machines and defence.
[3] Consists mostly of bonds issued for voting machines, river improvement, ferry, tax deficiency, pier and basin improvement and transit dock.
[4] Less than 0.5%.
[5] Totals are not the exact sums of their component items because of rounding out of figures to nearest thousand.

able local borrowing in the near future. By a constitutional amendment, ratified in November, 1927, New York City's debt limit was enlarged by $300 millions to permit of the extension of rapid transit facilities. Meanwhile, the state government, on January 1, 1928, was authorized to issue $421.5 millions of bonds for parks and parkways, hospitals and other state institutions, other public works, and for grade crossing elimination. In his budget message of January 16, 1928, the Governor urged rapid progress in these projects, which would indicate a further increase of the state indebtedness in the near future. The road and school construction programs of the local governments have not reached completion, and further borrowings will be necessary for this purpose. There is little prospect, then, of any immediate check to the tide of borrowing by New York governments.

New York's State and Local Indebtedness

During the ten-year period 1917 through 1926, serial bonds were being steadily retired and sinking funds built up. This debt reduction, however, was not sufficient to offset the increase of indebtedness through new borrowings. Consequently, there occurred an increase of the net bonded debt of the state and local governments, as shown in Table 13.[1]

Elements of State and Local Indebtedness

The actual bonded debt is considerably in excess of the figure of net indebtedness. In 1917, the actual bonded debt of the state and local governments of New York amounted to $1,927.4 millions; in 1921 to $2,243.7 millions; and in 1926 to $3,118.3 millions.

During these years, however, the sinking funds against such part of this debt as was in lump forms increased as fast

[1] The figures for state and local indebtedness given in Table 13 are taken from the annual reports of the State Tax Commission. In the earlier years covered by this table there were many omissions in the reports made to the State Tax Commission and it is unquestionable that the figures for those earlier years are understatements, particularly in the case of school districts, villages and towns. In recent years, however, the reports have been fuller, and it is probable that the indebtedness figures shown for 1925 and 1926 are approximately correct. Therefore the *rate of increase* of the indebtedness of the various governmental divisions, as shown in Table 13, is exaggerated.

TABLE 13: NEW YORK STATE AND LOCAL INDEBTEDNESS, FISCAL YEARS 1917 TO 1926

(Source: Annual Reports of the State Tax Commission)

Governmental Divisions	Items of Indebtedness	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
		Amount (in Thousands)									
State	Bonded debt	$236,310	$236,215	$236,120	$236,024	$267,729	$266,998	$264,245	$308,491	$318,456	$315,520
	Sinking fund	48,689	55,614	62,289	69,499	79,235	81,171	83,134	86,832	90,996	94,960
	Net bonded debt	$187,621	$180,601	$173,831	$166,525	$188,494	$185,827	$181,111	$221,659	$227,460	$220,560
	Temporary debt	..	..		2,836	55	10	..	25	15	1,305
	Combined debt	$187,621	$180,601	$173,831	$169,361	$188,549	$185,837	$181,111	$221,684	$227,475	$221,865
Counties[1]	Bonded debt	$29,834	$28,254	$29,548	$29,904	$29,301	$40,911	$40,622	$54,868	$61,560	$78,225
	Sinking fund	..	..	..	..	..	..	..	..	112	229
	Net bonded debt	$29,834	$28,254	$29,548	$29,904	$29,301	$40,911	$40,622	$54,868	$61,448	$77,996
	Temporary debt	1,590	3,477	1,870	..	..	..	..	2,383	10,772	13,835
	Combined debt	$31,424	$31,731	$31,418	$29,904	$29,301	$40,911	$40,622	$57,251	$72,220	$91,831
Towns[1]	Bonded debt	$6,279	$8,563	$9,473	$12,280	$10,942	$13,713	$19,036	$27,062	$31,812	$43,016
	Sinking fund	..	..	..	..	..	10	..	..	5	30
	Net bonded debt	$6,279	$8,563	$9,473	$12,280	$10,942	$13,703	$19,036	$27,062	$31,807	$42,986
	Temporary debt	696	811	1,043	6	10	..	..	32	2,392	6,530
	Combined debt	$6,925	$9,374	$10,516	$12,286	$10,952	$13,703	$19,036	$27,094	$34,199	$49,516
New York City[2]	Bonded debt	$1,469,448	$1,506,555	$1,548,261	$1,589,359	$1,710,531	$1,730,160	$1,825,851	$1,951,589	$1,834,037	$1,958,820
	Sinking fund	427,928	442,025	493,980	529,175	573,933	610,869	640,910	689,096	742,603	870,656
	Net bonded debt	$1,041,520	$1,064,530	$1,054,281	$1,060,184	$1,136,598	$1,119,291	$1,184,941	$1,262,493	$1,091,434	$1,088,164
	Temporary debt	..	49,321	42,350	102,822	113,680	61,453	48,928	66,260	68,779	64,625
	Combined debt	$1,041,520	$1,113,851	$1,096,631	$1,163,006	$1,250,278	$1,180,744	$1,233,869	$1,328,753	$1,160,213	$1,152,789

All other cities[2]	Bonded debt	$153,603	$153,686	$163,634	$162,309	$185,504	$206,403	$227,792	$259,062	$204,971	$225,114
	Sinking fund	10,495	11,624	10,763	11,565	12,708	12,258	13,020	14,454	15,720	19,440
	Net bonded debt	$143,108	$142,062	$152,871	$150,744	$172,796	$194,145	$214,772	$244,608	$189,251	$205,674
	Temporary debt	223	2,008	..	..	3,276	4,591	10,473	16,998	22,163	15,379
	Combined debt	$143,331	$144,070	$152,871	$150,744	$176,072	$198,736	$225,245	$261,606	$211,414	$221,053
Villages[1]	Bonded debt	$24,161	$22,405	$23,199	$26,657	$29,862	$34,778	$37,951	$41,810	$50,831	$56,448
	Sinking fund	..	272	444	349	393	583	502	603	499	1,018
	Net bonded debt	$24,161	$22,133	$22,755	$26,308	$29,469	$34,195	$37,449	$41,207	$50,332	$55,430
	Temporary debt	1,038	2	144	134	69	159	200	908	2,052	2,446
	Combined debt	$25,199	$22,135	$22,899	$26,442	$29,538	$34,354	$37,649	$42,115	$52,384	$57,876
School districts[1, 3]	Bonded debt	$7,739	$10,663	$7,252	$8,039	$9,860	$25,854	$31,112	$45,231	$398,275	$441,155
	Sinking fund	..	..	..	..	..	44	84	101	37	102
	Net bonded debt	$7,739	$10,663	$7,252	$8,039	$9,860	$25,810	$31,028	$45,130	$398,238	$441,053
	Temporary debt	..	37	5	13	9	155	535	601	357	951
	Combined debt	$7,739	$10,700	$7,257	$8,052	$9,869	$25,965	$31,563	$45,731	$398,595	$442,004
All governments[4]	Bonded debt	$1,927,374	$1,966,341	$2,017,487	$2,064,573	$2,243,729	$2,318,817	$2,446,608	$2,688,113	$2,899,942	$3,118,298
	Sinking fund	487,113	509,535	567,476	610,588	666,269	704,934	737,650	791,086	849,973	986,435
	Net bonded debt	$1,440,261	$1,456,806	$1,450,011	$1,453,985	$1,577,460	$1,613,883	$1,708,958	$1,897,027	$2,049,969	$2,131,863
	Temporary debt	3,497	55,656	45,412	105,811	117,100	66,368	60,135	87,206	106,530	105,071
	Combined debt	$1,443,758	$1,512,462	$1,495,423	$1,559,796	$1,694,560	$1,680,251	$1,769,093	$1,984,233	$2,156,499	$2,236,934

Percentage Distribution of Net Bonded Debt According to Governmental Division

State	13.0	12.4	12.0	11.5	11.9	11.5	10.6	11.7	11.1	10.3
Counties[1]	2.1	1.9	2.0	2.1	1.9	2.5	2.4	2.9	3.0	3.7
Towns[1]	.4	.6	.7	.8	.7	.9	1.1	1.4	1.6	2.0
New York City[2]	72.4	73.1	72.6	72.9	72.0	69.4	69.3	66.5	53.2	51.1
All other cities[2]	9.9	9.8	10.6	10.4	11.0	12.0	12.6	12.6	9.2	9.6
Villages[1]	1.7	1.5	1.6	1.8	1.9	2.1	2.2	2.2	2.5	2.6
School districts[1, 3]	.5	.7	.5	.5	.6	1.6	1.8	2.4	19.4	20.7
All governments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Indebtedness incompletely reported in earlier years of this series; completely reported in 1925 and 1926.
[2] Prior to 1925 includes school districts within cities; in 1925 and 1926 excludes these school districts.
[3] Prior to 1925 includes only school districts outside of cities; in 1925 and 1926 includes all school districts.
[4] The totals do not always exactly equal the sum of the individual items because of the calculation of each item to the nearest thousand.

as the total of the bonded debt. In 1917, the $487.1 millions of sinking funds represented 25.3% of the total of the bonded debt in that year; the $666.3 millions in the sinking funds in 1921 was 29.7% of the total debt, while the $986.4 millions in the sinking funds in 1926 was 31.6% of the existing bonded debt. The cities and the state government have built up the largest sinking funds, since most of the other local governments are constrained to issue their bonds in serial form.

Comparative State and Local Debt Burden

The per capita debt of New York in 1925 was $155.36.[1] Only two other states—California and Florida—had a heavier debt burden, $175.50 in California and $185.84 in Florida. The average for all states in 1925 was $85.50, so that New York's per capita debt was more than 80% higher than this average.

The Control of Public Borrowings

There are two disadvantages even for New York State in piling up a huge accumulation of debt. Borrowing is an expensive method of financing public expenditures, for it involves the cost of interest payments. The present tax burden is beyond question lightened by a resort to credit, but this is accomplished at the expense of future years; eventually the loans must be redeemed out of taxes, and there will always be the continuing item of interest payments.

The second disadvantage of a heavy debt burden is that it leaves no margin of fiscal safety for emergency. Widespread disaster through flood, earthquake or other natural causes can be repaired only by a liberal use of public credit. If the credit of the state and local government is already strained, how can they obtain further adequate accommodations?

[1] This figure for per capita debt from National Industrial Conference Board, "Cost of Government in the United States, 1925–1926," p. 67, is based, not upon the debt figure reported by the State Tax Commission, but upon an estimate comparable to that used for states where no exact figures are available. It is considerably below the debt figure reported by the State Tax Commission and is used in this study only for comparison with other states. For method of calculation, see *Ibid.* pp. 288–289.

Character of Capital Outlays

The first check to credit extravagance must be given in the field of expenditures. Improvements and capital outlays of state and local governments which will have to be financed through borrowing should be closely scrutinized as to their character and necessity. Certain types of capital public expenditures, such as those for public utilities, pay their own way; these carry their warrant on their face. Other types of public expenditure directly create private values, upon which the government can draw through special assessments or increased taxes. These also carry an element of justification. Most capital public expenditures, however, while they may be productive of great social benefit, do not directly or indirectly pay their way. These should be given careful consideration before they are authorized.

Wherever possible, capital expenditures should be financed out of current tax revenues, particularly if the capital expenditures are of a recurring nature—if they are to spread over a period of years.[1] Otherwise the public debt piles up, interest charges increase, and in the end, when the installments of the debt fall due, the taxpayers have to bear a greater burden than if a "pay-as-you-go" policy had been followed.

Statutory Limitations on Local Borrowing

Statutory prescription of the form of local debt obligations is necessary. Local governments are prone to avoid responsibility in the matter of debt retirement and, unless constrained, they would often neglect to make provision for repayment. Experience has shown that local governments cannot always be trusted to provide adequate sinking funds for their debts and that local borrowings are given an undue life by successive refundings. If local debts are required to be in serial form, this danger is obviated.

Under exceptional credit conditions, a local government may find it difficult to borrow at the customary rate of interest of 4% to 6%. It is more likely, however, that a loan at a higher rate of interest indicates chicanery or collusion

[1] National Industrial Conference Board, "The Fiscal Problem in Delaware," 1927, pp. 64–65.

between local authorities and local credit houses. New York and most other states have met this situation by fixing an interest rate limitation and by providing that local bonds cannot be sold below par. Massachusetts has gone a step in advance by issuing certain debt obligations of the cities and towns in the metropolitan district as an item of the state debt. The redemption of this "Contingent Debt" and the payment of interest upon it are covered by special direct taxes on the borrowing municipalities. Thus the state government, by underwriting local borrowings, reassures the lender as to the security of the local debts, and assures the local governments of the most favorable credit arrangements possible. By a somewhat similar arrangement, the New York state government has undertaken to issue up to $300 millions of bonds to finance the elimination of railroad grade crossings; the state government bears 40% of the expense of this undertaking, and underwrites such part of the other 60% which is to be borne by the railroads and the counties benefitted as is financed by borrowing. There is no reason why this principle of the underwriting of local borrowings by the state, with its savings in interest requirements, could not be applied to all local borrowings except, perhaps, to those of the first class cities.

In the past, statutory enactments have normally defined the purposes for which bonds might be issued, it is true, but these provisions have not been sufficiently stringent to prevent the grossest misuse of the borrowing power. In the newer legislation, such as that of Massachusetts and New Jersey, municipalities are forbidden to issue bonds for the payment of current operating expenditures, or to borrow in anticipation of taxes beyond the amount of the annual tax levy.[1] The Ohio Law even forbids the refunding of bonds previously issued and denominates all improvements, the estimated life of which is less than five years, as current expense items. The 1927 New York Village Law definitely applies the principle, now becoming common, that bonds must not be issued for a period exceeding the life of the improvement for which the debt is incurred.

[1] The Seventeenth Annual Conference of the National Tax Association, *Proceedings*, 1924, p. 154.

Central Control of Local Borrowing

Limitations upon the amount of debt which local governments may contract, even limitations based on assessed valuation, tend to be rigid and often work injustice and hardship upon communities where capital expenditure, perhaps due to emergencies, is a vital necessity.[1] Assessed valuation is the most flexible basis since, although it often happens that a community has borrowed up to the limitation, it is possible to enlarge its borrowing power by raising its assessment ratio. Assessment ratios, however, have an inertia of their own, and experience has shown they cannot be lightly juggled to accommodate the borrowing needs of the community. The 10% borrowing limitation on New York cities, based as it is on assessed valuation, is proving a strait-jacket to a number of these cities. The borrowing limitations on other communities are so broad as to be practically no restriction at all.

Some better way must be found to restrain extravagance and irresponsibility on the part of local governments. Indiana has tried a method which avoids rigid restriction but still provides a check on local officials.[2] Ten or more taxpayers who will be affected by a local bond issue may petition the State Board of Tax Commissioners to review the circumstances of the proposed bond issue. This body holds hearings, and its judgement on the proposed issue is final. Not only does this provision bring about a direct central control over local borrowing, but it is a powerful indirect check in cases which are never appealed, since the local authorities are chary about proposing bond issues of a questionable character which are likely to be disallowed on review. Such central control of local borrowing is a special aspect of the more general issue of central control of local finances.[3] If, as proposed, the greater reform should be initiated, it should include the subsidiary element of control of local borrowing.

[1] See Report of the State Tax Commission, 1926, p. 149.

[2] National Industrial Conference Board, "The Fiscal Problem in Illinois," 1927, p. 39.

[3] See pp. 39–42 of this volume.

CHAPTER III

NEW YORK'S TAX SYSTEM

THE tax system of New York is to a considerable extent the result of historical rather than logical development. There are antique survivals, improvements, reforms, changes and eleventh-hour inspirations among its provisions which are awkward of administration, which overlap and produce gross unfairness. However, the activities of the State Tax Commission and of the Joint Legislative Committee on Taxation and Retrenchment, and new legislation passed during the last ten years at the suggestion of these bodies, have gone far towards welding what had been a series of legislative accidents into a unified whole. It is not perfect, but compared with the tax legislation in many other states, it is a creditable accomplishment.

Constitutional Provisions

The Constitution of New York State gives the broadest conceivable freedom to the state legislature in tax matters. The only restriction upon it is placed by Art. III, which among other items covers the procedure of passing tax laws. Section 18 of this Article prohibits the legislature from passing private or local bills "granting to any person, association, firm or corporation, an exemption from taxation on real or personal property."

Limitations on Local Rates

Section 1 of Art. XII gives the state legislature full power to provide for and to regulate local finances. However, definite limitations on local tax powers have been placed in Art. VIII of the Constitution, Section 10 of which provides that the tax levies of cities with populations in excess of 100,000 and those of the counties in which such cities are located shall not exceed 2% of the assessed realty valuations of such cities or counties.

It should be noted that the 1915 state census brought the cities of New York, Buffalo, Rochester, Syracuse, Albany and Yonkers within the scope of this limitation. Utica showed a population exceeding 100,000 by the 1925 state census. This 2% limitation on the levies does not apply to the levies for debt service—to cover the payment of interest on funded debt and the redemption of such debt; this provision was inserted to protect the credit of the cities affected by assuring sufficient funds to cover the requirements of their outstanding debts. In addition to the seven cities subject to the constitutional 2% tax rate limitations, sixteen other cities embody tax rate limitations in their charters.[1]

The Education Law (Secs. 1118–1 and 1122) also places limitations on the levies which can be made for library purposes. Counties can levy from one-third of a mill to one mill according to their assessed valuations; villages and other local bodies can levy from one to two mills.

New York's Present System of State and Local Taxes

Twenty-seven separate and independent taxes producing over three-quarters of a billion dollars of revenue annually are now levied by the state and local governments of New York. Each of these twenty-seven taxes is treated individually in the statute books. Twenty of them are covered by the state's Tax Law. One—the license charge on real estate brokers and real estate salesmen—is provided for in the Real Property Law, Art. XII–A. The registration charge on motor vehicles, the registration charge on motorcycles and the license charges on operators and chauffeurs are covered by the Highway Law (Arts. XI, XI–A). The Insurance Law (Sec. 34) makes provision for the taxation of foreign insurance corporations, the Conservation Law (Sec. 308) for the

[1] The cities and their charter limitations are as follows:

Batavia, 1¼%.
Canandaigua, 1%.
Dunkirk, 1%.
Fulton, 1¼%.
Geneva, 1%.
Gloversville, 2%.
Hudson, 1¾%.
Ithaca, 1¼%.
Johnstown, 1½%.
Long Beach, 2%.
Mechanicville, 2%.
Norwich, 1⅗%.
Olean, .85%.
Oneida, 1%.
Oneonta, 1%.
Tonawanda, 2%

taxation of shellfish grounds, the Penal Law (Art. XXXI) for the license charge on billiard and pocket billiard rooms, and the Village Law for the poll tax.

General Property and Auxiliary Property Tax Laws

The general property tax—which in New York is no longer general and not always strictly on property—is by far the greatest revenue producer of these twenty-seven taxes. In New York, as in most of the states, its fiscal importance was originally much greater than at present. It has been supplanted in places and supplemented in general by the other twenty-six taxes which are now found in New York statutes. However, it still accounts for over three-fourths of the combined state and local revenue of New York.

Two taxes—the mortgage tax and the stock transfer tax[1]—may be considered as auxiliary to the general property tax, substituted for it as a more effective way of reaching certain types of property prone to avoid the general property tax or likely to be unfairly and doubly taxed by it.[2]

Taxes on Corporate Enterprise

The idea that business enterprise is a proper subject of taxation has had a gradual development in New York legislation. Eleven sections of the Tax Law now levy as many taxes on various aspects of business activity. Secs. 180 and 181 of Art. IX impose an organization tax on domestic corporations and a license tax on foreign corporations doing business in the state. Domestic and foreign mercantile and manufacturing corporations pay a franchise tax based on net income under Art. IX–A of the Tax Law. Commercial banks are taxed on their net income by Arts. IX–B and IX–C of the Tax Law; savings banks are taxed on their surplus and undivided earnings by Sec. 189 of Art. IX. Electric railways and water, gas, electricity, steam, power and light companies are taxed under Art. IX, Secs. 185 and

[1] Prior to March 31, 1927, the bank stock tax and the moneyed capital tax would have been included with the mortgage tax and the stock transfer tax as auxiliary property taxes.

[2] The stock transfer tax might justifiably be considered independently as an example of a state excise tax. But economic considerations warrant its being linked with the mortgage registry charge as auxiliary to the general property tax.

186. Domestic insurance corporations[1] are reached by Art. IX, Sec. 187. All other corporations in New York State are taxed on their franchises under Art. IX, Secs. 182 and 184 of the Tax Law.

Other Taxes

A personal income tax, in effect since 1919, is imposed by Art. XVI of the Tax Law. Arts. X-A and X-B levy an inheritance tax supplemented by an estate duty. The Highway Law, Arts. XI and XI-A, provides a license charge on motor vehicles and motorcycles and a charge on operators' and chauffeurs' licenses, the revenue from which is devoted to highway construction and repairs.[2] All these taxes are highly important as revenue producers and represent a definite and significant departure from the old concept of property as the sole equitable basis of taxation.

Finally, there should be noted the miscellaneous taxes and charges, including the license charge on real estate brokers and salesmen, the license charge on billiard and pool rooms, the tax on shellfish grounds, special local fees and charges, and special assessments. These charges involve either special regulation or special benefit. All but the special assessments are unimportant as revenue producers.

The Collection and Distribution of Tax Revenues

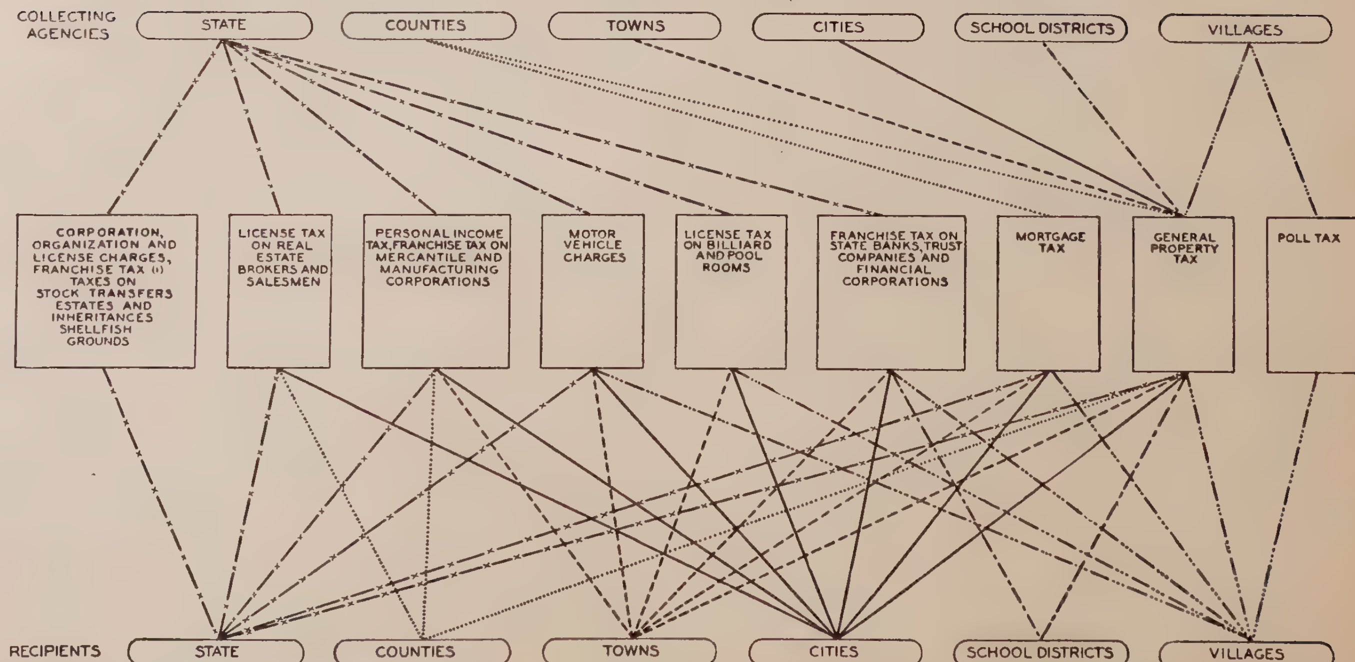
Chart 4 illustrates the system of the collection and distribution of the New York taxes. The state government collects all taxes except the general property tax, the mortgage registry tax, the poll tax, the special local fees and charges, and the special assessments. County officials collect the mortgage registry tax; the poll tax is assessed and collected in a few villages; and collection of the general property tax is shared in by county, town, city, village and school district officials.

The distribution of the revenue from the state's system of taxes is a problem deserving special attention in its own right, and full consideration is given to its several factors in Chapter IX of this study. For a quarter of a century two opposed

[1] Foreign insurance corporations are separately taxed under the Insurance Law.
[2] Except New York City's share which goes into the city's general fund.

Chart 4: Collection and Distribution of New York Taxes

(National Industrial Conference Board)



(1) EXCEPT MERCANTILE, MANUFACTURING AND FINANCIAL CORPORATIONS

principles of fiscal economics—the principle of the *separation* of the *sources* of state and local revenue and the principle of the *division* of a *common revenue* between state and local governments—have made the New York legislature their tilting ground. The situation has been further complicated by the desire of the legislature to reform the general property tax without reducing the revenue of the local governments therefrom. The result is an illogical combination of the two principles. The revenue from corporation organization and license charges, from the franchise taxes except those on mercantile, manufacturing and financial corporations, from the stock transfer tax, from the estate duty and the inheritance tax, and from the tax on shellfish grounds goes entirely into the state treasury. All other taxes are divided in varying proportions among the various governmental agencies.

The General Property Tax

The general property tax produces over $600 millions of revenue, approximately three-fourths of the total of state and local tax revenue. However, evasion that is beyond the power of tax administrators to check and legislative substitution of related taxes for portions of the general property tax have made this tax "general" in name only.

Taxable Realty

"All real property within this state," unless specifically exempted, is taxable by Art. I, Section 3, of the Tax Law. The law proceeds to further definition, indicating that for tax purposes all fixtures are realty. The machinery and equipment of corporations do not come under this definition, though the fixed machinery of a privately owned manufacturing plant may be included.[1] Certain rights, such as the perpetual right of a railroad to use certain land[2], and oil leases owned by a corporation,[3] are also considered taxable realty. In addition, by independent statutory provision, the special franchises of public service corporations are treated as realty for tax purposes.

[1] *People ex rel. N.S. Co. v. Waldron*, 50 N. Y. Supp. 523.

[2] *People v. Mealy*, 88 Misc. 649.

[3] *Re Hazlewood Oil Co.*, 185 N. Y. Supp. 809.

Special Franchises

The legislature in 1899 provided that all special franchises to operate transportation and transmission facilities over or through public property should be considered realty, from which the indebtedness of the companies could not be deducted. This law was intended to remedy a feature of the Tax Law which discriminated in favor of public service corporations. By the Tax Law, the bonded indebtedness of public service corporations was deductible from their taxable personalty. The Tax Law in this matter did not specifically discriminate in favor of public service enterprises, but by reason of their large bonded indebtedness, they were in a particularly favorable position to take full advantage of this deduction with the result that little, if any, of the value of their personalty was subject to taxation.

The special franchise tax law has been on the New York statute books for more than a quarter of a century, yet its interpretation and application are still surrounded by a haze of uncertainty. Definitions of the tax are still vague.[1] The courts have ruled that there is no taxable special franchise where the corporation owns the right-of-way property in fee,[2] where a city grants the right to use land by virtue of its proprietary rights and not as a sovereign power,[3] and where the right to use a street is granted by abutting owners who themselves have title in fee to the street.[4]

The valuation of these special franchises is made by the State Tax Commission, but no exclusive rule or method is prescribed by the statute or laid down by the courts. The method of valuation depends to a considerable extent on the nature of the corporation itself. The general administrative rule is to base the valuation of the special franchise on the net earnings of the corporation.[5] From the gross receipts

[1] The special franchise tax "is in the nature of a property tax imposed upon a substantial right connected with tangible property," *People ex rel. Jamaica Water Supply Co. v. St. Bd. of Tax Comm.*, 196 N. Y. 39; it is a tax on "the right to use public property for public use with private profit," *Lord v. Equitable L. A. Soc.*, 194 N. Y. 212; it is a tax on "the right to do something in a public highway which, except for the grant, would be a trespass," *People ex rel. N. Y. Cent. R. R. v. St. Tax Commission*, 199 N. Y. Supp. 820.

[2] *People ex rel. Western N. Y. & Pa. Ry. Co. v. Knapp*, 241 N. Y. 364.

[3] *People ex rel. Lehigh Valley Ry. Co., v. Tax Comm.*, 329 N. Y. 183

[4] *People ex rel. Retsof Co. v. Priest*, 75 A. D. 132, affirming 175 N.Y. 511

[5] *People ex rel. Third Ave. R. R. Co. v. St. Bd. of Tax Comm.*, 212 N. Y. 472

from operation are deducted the expenses of operation and also a fair return from the portion of the corporation's capital invested in tangible property used in connection with the operation of the franchise. Capitalization of the remaining net income gives the value of the intangible element of the special franchise.

The assessment of the special franchise values thus made includes both the value of the fixtures and an intangible element which might be considered "corporate excess." Any special license, privilege or franchise taxes paid by a public service corporation to a municipality are allowed as an offset to the special franchise tax.

Taxable Personalty

Three classes of personal property are at present taxable. The tangible personalty of individuals above a $1,000 exemption on household effects is subject to both state and local taxation. The tangible personalty of individual business enterprises and partnerships, including stocks of commodities and merchandise, is also taxable for both state and local purposes. The tangible personalty of corporations, taxed under Art. IX of the Tax Law, is subject to local taxation.

The New York general property tax law provides that debts are deductible from the total of taxable personalty. This is contrary to the usual provision, found in other states, that debts are deductible from credits only. The New York measure places a premium on the creation of fictitious indebtedness, and makes possible an escape of personalty from the property tax that would be serious if the New York personalty tax were not so limited in scope.

The narrow scope of the New York personal property tax is the result of a quarter century's whittling down by new taxes which in part superseded or overlapped the general property tax. With the advent of the personal income tax, intangible personalty was wiped off the tax list. The Highway Law had earlier provided that the payment of the annual registration charge should except motor-vehicles from assessment for the general property tax. The Emerson Law of 1917, subjecting business corporations to a net income tax, exempted the personalty of corporations so taxed from other

taxation. Consequently the personal property tax is at present an inconsiderable item of the New York tax system.[1]

Exempt Property

In addition to the classes of personalty made non-taxable noted in the preceding section of this Chapter, the property at present exempted from the general property tax falls into seven categories:

1. Government property, federal state and municipal, and Indian lands.
2. The bonds of the state and local governments of New York.
3. Household effects and personal property up to a value of $1,000.
4. A broad list of properties appertaining to educational, charitable and religious organizations and to ministers.
5. The real property of veterans' associations and real property up to a value of $5,000 purchased with the proceeds of a military service bonus or pension and owned by the pensioner or by his mother or wife.
6. Property which, if taxes under the general property tax, would be subject to double taxation, either by New York and other states, or within New York State by other taxes (this includes specified types of personalty owned by non-residents but temporarily within the state for investment, sale, collection, and so forth, and all types of personalty which are reached in one way or another by other tax laws).
7. Property exempted for the specific purpose of encouraging certain industries or types of economic activity[2] (the two examples of such "bonus" exemption in New York are the option given to local governments to exempt new dwellings until 1932, and the outright exemption until 1932 of the capital stock, franchises and earnings of domestic corporations engaged in foreign commerce and owning vessels registered at a New York port).

[1] See pp. 145–151 of this volume.

[2] See fuller discussion of this subject on pp. 158–159 of this volume.

Until 1901, there were no constitutional limitations upon powers of the New York legislature to exempt property from taxation. In that year, the prohibition against passing private or local exemption bills, noted above,[1] was incorporated in the Constitution. Its effect was not all that was anticipated. Instead of checking exemption legislation, it induced the legislature to pass general exemption laws when it wished to confer special favors.[2] The constitutional convention of 1915 sought to remedy this situation with an amendment which would have required a two-thirds vote in each house of the legislature to pass an exemption bill. The amendment was not ratified, and the exemption situation remains unchanged.

The Taxation of Forest Property

New legislation in 1926 (Ch. 610) and 1927 (Ch. 431) completely revised the system of special forest taxation, which had been established in 1912. By the new laws, the growth value of timber on land over five acres in area which has been planted with eight hundred trees to the acre or underplanted with three hundred trees per acre is completely exempted from taxation. The value of the bare land is assesssed at the normal rate of assessment for the vicinity. A 6% severance tax is laid on the timber when it is cut.[3]

The Organization of Local Assessment

All taxable property, except special franchises, is assessed by the local assessors. The State Tax Commission is charged with the assessment of special franchise values.

At the present time, New York's system of assessment is in a state of transition. It is full of compromises which find their justification in the hope that they will "carry on" until order can be brought into the system. In New York, the township is the historical assessment unit. In view of the exigencies of present-day political and economic life, town-

[1] See p. 58 of this volume.

[2] Martin Saxe, "Exemption of Real and Personal Property from Taxation," *National Tax Association Bulletin*, Vol. II, p. 12.

[3] For critical consideration of the subject of New York's forest tax legislation, see Chapter VI of this volume.

ship unit of assessment is subject to severe criticism in New York and elsewhere.[1]

The first government units to be freed from the limitations of town assessment were the cities. The larger cities have long had control of the assessment procedure within their boundaries. In 1921 (Ch. 300), it was provided that all second and third class cities should have their own departments of assessment and taxation.

Meanwhile, some villages under authorization were also discarding town assessments and making their own. By 1925, only a handful of villages used the town assessment as the basis for their taxes. Finally, the 1927 Village Law made independent assessments by all villages optional.

Even the school districts have been allowed a certain discretion in their use of town assessments. Section 412 of the Education Law provides that school district valuations shall be ascertained "as far as possible" from the town assessment rolls. Under certain not uncommon circumstances, however, "the trustees of a district shall ascertain the true value of the property to be taxed from the best evidence in their power."

In an attempt to stiffen town assessments, the legislature in 1925 provided that the town boards might substitute a single appointed assessor for the three assessors. However, it was also provided that any town board might return to the old elective system at any time by a unanimous vote.

Assessment, Equalization and Collection Process

Assessment rolls in New York are worked up during the first half of each calendar year. The values fixed by the town assessments are of July first in most cases; the village assessments fix them as of November first; the date of the case of city assessments varies. This stage of the procedure is presumably completed by September 15 in the case of city assessments (except in New York City), by November first for town assessments, and by December first for New York City. After examination and correction, the assessment rolls go to the boards of county supervisors.

[1] See pp. 137–141 of this study. Compare also National Industrial Conference Board, "The Fiscal Problem in Illinois," 1927, p. 152.

The county boards can review these assessment lists themselves, or delegate this function to specially appointed "commissioners of equalization," or to boards of commissioners appointed under special authorization by justices of the Supreme Court residing in the county. The county boards, or the commissioners of equalization, as the case may be, can correct any "manifest clerical or other errors" and equalize the assessments as between tax districts. They can raise or lower the assessments of the individual districts at discretion, but they cannot lower the total assessed value for the county below the original aggregate.

Upon appeal or complaint or upon its own motion the State Tax Commission may overrule the equalization of any county board and make its own equalization. In addition, the State Tax Commission assesses special franchises, and apportions these values among the districts. Since 1927, it has exercised the functions of a state board of equalization, equalizing the county assessments so as to determine the respective county quotas of the state tax.

The town collectors begin their work in January and continue for two months. The dates for tax collections in the cities vary according to the charter provisions of the individual cities. The school district collectors should begin the work of collecting annual levies on September first, but frequently their warrants are not issued to them until much later. Under the new Village Law of 1927, the period of village tax collection is from June 15 to July 15, but special levies may be made at any time during the year. The Special Joint Committee on Taxation and Retrenchment comments that "the only possible absurdity which has been omitted from the scheme seems to be that of allowing every special district the privilege of having its own collector and its own tax calendar."[1]

Delinquent Taxes

There is always a number of property owners who prefer to postpone payment of their taxes in any given year. This number increases and declines with the ebb and flow of business prosperity. Five per cent is a generous allowance for

[1] New York Legislative Document, 1923, No. 55, p. 128.

the average amount of uncollected taxes. Indifferent and inefficient administration may swell this amount to much larger proportions. In many villages in New York, from 15% to 20% of the taxes have remained uncollected from year to year. It is likely that the proportion for some school districts has been quite as high.

The legislature has sought to relieve the delinquent tax abuse by making the county responsible for the collection of some of these delinquent taxes. The Education Law (Sections 434–438) provides that the trustees of school districts shall forward affidavits of uncollected taxes to the county treasurers who shall reimburse them for the amount. The county thereupon sets about the collection of unpaid taxes, with a 7% delinquency charge. Tax sales are thus centered in the county. The 1927 Village Law makes identical provision for unpaid village taxes, except that the delinquency charge for unpaid village taxes is fixed at 12%.

Auxiliary Property Taxes

The failure of the general property tax to reach personal property has long been evident. One of the approaches to the solution of this problem in New York was to isolate particular types of personalty and to apply special taxes to them in lieu of the general property tax. An exact correspondence of burden might not be obtained by the change, but it was felt that the greater practical effectiveness of these substituted taxes would atone for any discrimination of tax burden either in favor of or against these particular types of property. Among the special taxes as levied during the past ten years were the investment tax, the secured debts tax, the bank stock tax, the moneyed capital tax, the mortgage registry tax and the stock transfer tax. Of these six special taxes, only the mortgage registry tax and the stock transfer tax are a part of New York's tax system at present.

The Mortgage Registry Tax

In 1905, mortgages were removed from the general property tax system and taxed separately by an annual tax. In the following year, the tax was made a registry tax imposed

only once—when the mortgage was recorded. The rate was fixed at ½%.

In 1911, this registry tax was extended to all secured debts. This automatically removed a large portion of assessed personalty values from the assessment rolls. The annual revenue of the registry tax was about one million dollars. After a while, it was felt that the revenue loss was too great, and that the single registry charge discriminated against short-term debts and in favor of long-term debts. In 1915, the rate on secured debts was raised to ¾%, and the exemption from general property taxation was limited to five years.

In 1917, all investments except bank shares were made subject to an annual tax of ¼% on their face values. This special low rate was limited to five years. The tax lasted only two years, however, as it would have been inconsistent with the income tax levied in 1919, and it was abolished in that year. At its maximum yield, in 1918, the investment tax yielded less than one and a half million dollars.

At present, of these groups of taxes, only the mortgage tax, at its original ½% rate, is retained. Half the revenue from this tax goes to the state and half to the local governments.

The Stock Transfer Tax

In 1905, a law was passed imposing on transfers of stock a tax of two cents per $100 of par value or fraction thereof. In 1906, the law was changed so that the tax applied to *each share* of $100 par value, but this provision was declared unconstitutional,[1] and the law was reenacted in its original form in 1910. Later amendments fixed a rate of two cents per share on the transfer of no-par-value stock. The tax is a stamp tax.

The tax met with much opposition during its early years, and there was considerable evasion due to the re-use of stamps.[2] This abuse was checked by later legislation, the dissatisfaction has disappeared with continued familiarity, and this tax is now one of the smoothest working and least obnoxious taxes in the New York tax system.

[1] *People ex rel. Farrington v. Mensching*, 187 N. Y. 8.

[2] M. H. Hunter, "The Development of Corporation Taxation in the State of New York," Urbana, 1917, p. 55.

Corporation Organization and License Charges

The corporation organization charge on domestic corporations and the license charge on foreign corporations doing business in the state are identical in purpose and effect. The former is a charge for organizing as a New York corporation and acquiring the privileges of a corporation to own property or do business in the state. The latter is a charge upon foreign corporations for permission to exercise corporate privileges in New York.

The Corporation Organization Charge

The corporation organization charge was first levied in 1886. The rate was 1/8% of the authorized capital stock. This rate proved discouraging to the formation of corporations in New York, particularly in view of the incorporation baits New Jersey was holding out. Consequently, in 1891, the rate was reduced to one-twentieth of one per cent with a minimum tax of $10.

The charge does not apply to state and national banks, nor to building loan or cooperative associations. Any increase of capital is taxed at the same rate. Changes of capital are taxed at five cents per share with a credit of one-half of the original incorporation charge.

The License Charge on Foreign Corporations

The license charge on foreign corporations is 1/8% of the issued capital stock employed in the state. The basis of the tax is the privilege or franchise to do business or own property in New York. The *measure* of the tax is the capital stock employed in the state. The determinant of the amount employed in the state is the proportion of the gross assets of the corporation located in New York to its total assets.

The Taxation of Corporate Enterprise

In the United States, the theory that all business activity —industrial and mercantile operations organized for profit— is a legitimate subject or basis for taxation, co-equal with property, personal income and inheritance, has received little recognition. Instead, legislative enactment and fiscal

theory have dealt with the special taxation of business conducted under corporate organization, on the principle that incorporation was a special privilege granted by the state for which the state might expect reimbursement.

In New York, as elsewhere, a system of *corporation* taxes, not *business* taxes, has grown up beside the system of property taxation. New York's corporation taxes have undergone many mutations in the course of their development. They fall short of the ideal of unity and equality, but the revisions and the tax legislation of the past ten years have contributed towards achieving harmony.

The Present System of Corporation Taxes

The present system of corporation taxation in New York comprises four sets of taxes: the franchise tax on business corporations (Art. IX-A of the Tax Law), the franchise taxes on savings and commercial banks, trust companies and other financial corporations (Art. IX, Sec. 189; Art. IX-B and Art. IX-C of the Tax Law), the franchise and privilege taxes on domestic and foreign insurance companies (Art. IX, Sec. 187 of Tax Law; Secs. 34 and 169a of the Insurance Law), and a miscellaneous group of corporation franchise taxes, mostly on public service corporations (Art. IX of the Tax Law).

The franchise tax on mercantile and manufacturing corporations takes alternative forms, according to the circumstances of the taxed corporation. It is 4½% on net income, or one mill on the par value of the issued capital stock (provided it has par value; otherwise it is upon its market value not less than $5.00 per share), or a minimum tax of $10.00, whichever of the three is the highest.[1] Domestic corporations are taxed for the privilege of exercising their corporate franchises. Foreign corporations are taxed for the privilege of doing business within the state. In both cases, however, the measure of the tax is the business done within the state, the determinant being the proportion of capital and assets employed within the state during the year to total capital and assets.

[1] Of 49,528 returns in 1922, 16,413 paid the minimum $10 tax, 13,909 paid the one mill tax, and 19,206 paid the 4½% net income tax. Report of the State Tax Commission, 1924, p. 483.

The franchise tax on state banks, trust companies and other financial corporations is practically identical in form and rates with that on mercantile and manufacturing corporations. The franchise tax on national banks differs from that on state banks, trust companies and other financial corporations in that no minimum tax of $10 or one mill on capital stock is set. Savings banks pay 1% on their surplus and undivided earnings.

Domestic and foreign fire and marine insurance companies are taxed ½% on their gross premiums. All other domestic insurance companies, all foreign insurance companies (organized in another state) except those for fire and marine insurance, and alien insurance companies (organized outside the United States) except health and casualty insurance companies are taxed 1% on their gross premiums. Alien health and casualty insurance companies pay 2% on their gross premiums. The agents of foreign marine insurance companies must pay 5% on their underwriting profit on business done within the state. It is provided in the Insurance Law, moreover, that if the taxes of other states on New York insurance companies are heavier than the corresponding New York taxes, the insurance companies of such states will be taxed at the rates those states apply to New York companies.[1]

Finally, Art. IX of the Tax Law provides a group of special taxes applying mainly to public service corporations. Real estate, holding and all transportation and transmission companies pay one mill on the actual or market value of their issued capital stock if their dividends are less than 6%; if their dividends are 6% or more, the tax is one-quarter of a mill for each 1% of dividends. Transportation companies and transmission companies also pay a tax of ½% on their gross earnings from interstate business. Water works, light,

[1] By Sec. 133 of the Insurance Law, agents of foreign fire insurance corporations, except in the cities of New York and Buffalo, pay on February 1st to the fire department of the respective localities 2% upon all premiums received during the preceding calendar year. By Sec. 149–a of the Insurance Law, certain foreign mutual fire insurance companies on or before February 15th must pay to the Superintendent of Insurance a tax of 2% on all gross premiums and premium deposits and assessments (less certain deductions) received on New York risks during the preceding calendar year. Ten per cent of the taxes under this Section goes to the Firemen's Association of the State of New York and the balance to the various local fire departments.

heat and power companies pay ½% on their gross earnings from interstate business plus 3% on dividends in excess of 4%.

The Development of Taxes on Non-Financial Corporations

New York had no system of special corporation taxes prior to 1880. In that year a tax identical in form with that now laid on real estate, holding, steam transportation and transmission companies was levied on all domestic corporations except banks, insurance companies and manufacturing companies. At the same time, the additional franchise tax of ½% on gross earnings was levied on transportation and transmission companies. The real property of the corporations subject to these special taxes remained taxable under the general property tax, but their personalty was henceforth exempted from state taxation.

Later amendments greatly modified this original corporation tax. In 1885, the tax was limited to so much of the capital stock of domestic corporations as was employed within the state, but at the same time it was extended to foreign corporations to the extent of their capital stock employed within the state. In 1896, non-steam railroad companies, and light, water, gas, heating and power companies, which had been avoiding the capital stock tax by shifting the weight of their financing to bonds instead of stock, were withdrawn from the capital stock tax and subjected to gross earnings taxes at the rates noted above. Finally, in 1906, the capital stock group of taxes was revised and provision was made for the taxation of the capital stock of companies showing deficits at three-fourths of a mill on their appraised value.

Mercantile corporations were subject to this capital stock tax, but manufacturing corporations, pursuant to a long-established policy of favoritism, were exempted. Increased revenue needs ended this favored treatment. The Emerson Law of 1917 (Ch. 726), subjected mercantile and manufacturing corporations to a 3% tax on their net income, and their personalty was exempted from all state and local taxation. In 1919 (Ch. 628), the law was strengthened as to its scope and the rate was increased to its present level.

The Development of Taxes on Financial Institutions

From Civil War days to the present, the New York legislature has faced a difficult problem of bank taxation, seeking on the one hand to meet the requirements of Section 5219 of the Federal Revised Statutes and, on the other, desiring to extract what it deemed a proper proportion of taxes from banking activity. From 1865 to 1901, national and state bank shares were considered taxable personalty, in the possession of the owner, subject like other personalty to the regular rates of the general property tax. They were taxed to the holder at the location of the bank. In 1901, bank shares were made taxable at a statutory rate of 1%; the assessment was measured by the capital, surplus and undivided profits of the banks.

The personal income tax law of 1919 made dividends on bank stock taxable, like any other income, at from one per cent to three per cent. In the following year (1920, Ch. 647) all local taxation on every sort of intangible personalty except on bank shares was swept aside. These provisions were declared invalid by *Hanover National Bank v. Goldfogle* (234 N.Y. 345, 43 Sup. Ct. 432), on the ground that national banks were being discriminated against since "competing moneyed capital" was not being taxed at a similar rate, and such discrimination was forbidden by Section 5219 of the Federal Revised Statutes.

Meanwhile, the decision of the United States Supreme Court in *Merchants National Bank v. City of Richmond* (256 U.S. 635; 41 Sup. Ct. 619) threatened the system of bank taxation in all states. Congress then enacted a measure which amended Section 5219 and allowed the states a much wider latitude in the taxation of banks than had been possible under the interpretation placed on the old Section 5219 by the Richmond decision. The New York legislature promptly passed the Walker-Donohue bill (1923, Ch. 897) which provided for the taxation of state and national banks and also of moneyed capital coming into competition therewith. Bank shares continued to be taxable at 1% and the same rate was now applied to competing moneyed capital. Income from both sources was exempted from the personal income tax. As with the bank stock tax, the entire revenue from the moneyed capital tax went to the locality.

The bank stock tax was susceptible of definite assessment and levy. The attempt to assess moneyed capital proved a failure. In New York City, a half million dollars of moneyed capital was eventually assessed. Elsewhere in the state the moneyed capital tax was largely ignored. Of the sixty cities in the state, only eight reported assessments in 1923, twelve in 1924, sixteen in 1925, and seven in 1926. The total of these assessments was less than one per cent of the total for the state.[1]

In 1926 (Ch. 286), the taxation of banks and financial institutions was linked up with the taxation of other corporations by a franchise tax on state banks, trust companies and financial corporations and by a franchise tax on national banks. As indicated above, the tax on state banks, trust companies and financial corporations is a combination income and capital stock tax, and at the same rates as the tax on mercantile and manufacturing corporations. The tax on national banks is a straight 4½% net income tax.

The Personal Income Tax

New York first levied a personal income tax in 1919. The taxation of personal income was advocated in New York long before it was effected. The Wisconsin law of 1911 proved a powerful urge, and an income tax was recommended by legislative committees in 1915 and in 1916.[2] The loss of liquor license revenue as a result of the advent of Prohibition proved the deciding factor, and the personal income tax was enacted in 1919.

For the sake of simplicity, the New York income tax followed the federal law very closely, as "it was felt that practical uniformity was better than theoretical perfection."[3] This derivation was noted by the courts in their early decisions. With the intervening years, however, this correspondence has waned, as the definite distinctions between federal and state taxation forced themselves upon the legislators' attention.

[1] New York Legislative Document, 1925, No. 97, p. 99.

[2] New York Legislative Document, 1921, No. 57, p. 27 ff.

[3] *Idem.*

Rate Provisions of the Personal Income Tax

Every resident[1] individual, estate or trust receiving taxable income and every non-resident individual, estate or trust receiving taxable income from property owned or business carried on in the state, is subject to the tax. Seven classes of income are exempt from the tax: (1) salaries and compensation of federal employees, (2) interest on federal and New York bonds, (3) the tax paid to the Federal Government for obligee on account of tax free covenant bond by issuing corporation, (4) gifts and inheritances, (5) dividends from a personal service corporation with less than five shareholders and a salary list for officers less than fifteen per cent of its net income, and (6) the proceeds of certain insurance policies, workmen's insurance compensation and the income of religious, charitable or educational institutions.

The personal exemptions allowed are $1,500 to a single individual, $3,500 to a married couple, and $400 for each dependent. The rates are 1% on the first taxable $10,000 of the income, 2% on the next taxable $40,000 and 3% on the net taxable income above $50,000. During 1923, 1924 and 1925, these rates were reduced by one-fourth. Income in 1926 and 1927 was taxed at the full rate.

The Inheritance Tax and Estate Duty

New York levies both an inheritance tax and an estate duty. The inheritance tax has three relationship classifications, as shown in Table 14. An exemption is allowed to heirs of the Class A group but to no other personal heirs. The tax applies to the share received by the individual beneficiaries. The maximum rates apply when the shares exceed $200,000. The maximum rate on heirs of Class A is 4%; that on heirs of Class C is 8%. In addition, the estates of resident decedents are subject to an estate duty beginning on estates of $200,000 ($100,000 where there are contingent elements in the estate), with rates fixed at four-fifths of the federal estate duty—the full credit allowed under the federal estate duty. The inheritance tax is allowed as a deduction against the estate duty.

[1] A resident is (1) a person domiciled in the state or (2) a person maintaining a permanent place of abode in the state and spending in the aggregate more than seven months of the tax year in the state.

History of New York Inheritance Tax Legislation

New York was a pioneer among the states in the field of inheritance taxation. In 1910, after levying a flat-rate for twenty-five years, it essayed to levy a tax with sharply progressive rates, heavier than any in effect in the other states. There was a sharp popular reaction against it, and in 1911 the rates were reduced to the schedule shown in Table 14. No change has been made in the rate schedule of the New York inheritance tax since 1911.

In 1924, the rate schedule of the federal estate duty was sharply increased, a maximum rate of 40% being set on the excess of an estate over $10,000,000. At the same time, estates taxed under the federal duty were credited with all state inheritance taxes paid up to one-fourth of the amount of the federal duty. New York took immediate and full advantage of the 25% credit allowance in the federal estate duty. In 1925 (Ch. 320), an estate duty was added to the New York inheritance tax with rates so graduated as to be exactly one-quarter of the federal rates; estates under $1,000,000 were not subjected to this auxiliary estate duty. The amounts paid under the inheritance tax were counted as credits against the estate duty. Thus New York was exacting a maximum of revenue from the estates of its decedents, yet the ultimate burden upon them, in view of the federal credit, was no greater than that upon the estates of Florida, Alabama or Nevada decedents which paid no taxes whatsoever to their state governments.

In 1926, the rates of the federal estate duty were reduced to the 1921 level, with a maximum of 25%, but the credit allowed was 80%. New York promptly modified its law (1926, Ch. 365), raising the rates of its estate duty so as to take full advantage of the new schedule of federal credits. In 1928, the estate duty was extended (Chs. 38, 549) so as to apply, as noted above, to all estates above $200,000, and where there are contingent elements to estates over $100,000.

Scope of the New York Inheritance Tax Legislation

The New York inheritance tax law makes the following transfers between decedent and beneficiary taxable: (1) transfers by will, (2) transfers by intestacy, (3) transfers

Table 14: New York Inheritance Tax and Estate Duty Rates, 1928

(Prentice Hall, New York Tax Service)

Beneficiary	Exemption (to Each Beneficiary)	Rate: First $25,000 after the Exemption	Rate: $25,000 to $100,000	Rate: $100,000 to $200,000	Rate: Over $200,000
Residents					
Class A					
Father, mother, husband, wife, child, adopted child, lineal descendant	$5,000 except to lineal descendants, to whom no exemption, unless share is $500 or less, in which case, entirely exempt	1%	2%	3%	4%
Class B					
Brother, sister, wife or widow of son, husband of daughter, mutually acknowledged child	..	2%	3%	4%	5%
Class C					
All other except Class D	..	5%	6%	7%	8%
Class D					
Gifts for charitable, religious, educational, cemetery, historical purposes; also real property to municipal corporation	Entirely exempt	..	..	..	..

Estate Tax: Residents' estates of over $200,000 ($100,000 where there are contingent elements in the estate) also subject to estate tax, at $\frac{4}{5}$ rate of federal estate tax rates with exemption of $100,000; estate tax to be credited with all state or territorial estate or succession taxes. The tax is not to exceed difference between all state or territorial estate or succession taxes, and $\frac{4}{5}$ of the federal estate tax. The estate tax does not apply to non-residents.

Non-Residents: The present statute (1928, Ch. 143) in case of non-resident decedents, includes good will with capital invested in business within the state; eliminates the possibility of any tax on bonds. It imposes a flat rate tax of 3% on transfers, by will or intestacy with prorated deductions, or at the option of the legal representative, a flat rate of 2% without deductions; where the rate on a resident estate would be lower, this rate is applied. No exemptions are allowed. Reciprocal exemptions from tax on intangible personalty of non-resident decedents are provided where state of domicile grants reciprocal exemption or does not tax intangible personal property of New York residents.

made in contemplation of death, (4) transfers made under a revocable trust, (5) transfers made under power of appointment, and (6) transfers by survivorship in joint tenancy. The last-named category of transfers was brought under the tax law in 1915 (Ch. 664). At this time, the entire amount of the joint estate was taxed irrespective of any contribution that might have been made by the survivor, but in 1923 (Ch. 177) it was provided that only one-half of the value of real property held jointly by husband and wife should be taxable at the death of either tenant.

The entire estate of a resident decedent, except real and tangible personal property outside of the state, is and has always been subject to the tax. In the taxation of non-residents, New York's policy has been more wavering. In the reaction against the "Reign of Terror" act of 1910, the legislature in the next year (1911, Ch. 732) provided that the estates of non-residents were to be taxed only on realty and "tangibles" specifically located in New York. The distinction between tangibles and intangibles proved unworkable, and in 1919 (Ch. 626) New York swung into line with the majority of other states by taxing the shares of domestic corporations appearing in the estates of non-resident decedents. Three years later (1922, Ch. 432), the burden on the estates of non-residents was increased by the adoption of the New Jersey principle of determining the rate on the taxable part of a non-resident's estate by reference to the value of the entire estate. In 1925 (Ch. 143), another change was made, and the estates of non-residents were taxed under a modification of the Matthews flat-rate plan—a flat rate of 3% on the net estate or a flat rate of 2% on the gross estate, at the choice of the executor. At the same time, provision was made for reciprocity in the mutual exemption of non-residents' estates.[1]

In July, 1927, the New York Court of Appeals held the flat-rate tax on the estates of non-residents unconstitutional[2]

[1] Reciprocal relations now exist with Alabama, California, Colorado, Connecticut, Delaware, District of Columbia, Georgia, Illinois, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, Ohio, Oregon, Pennsylvania, Rhode Island, Tennessee, Vermont and Virginia.

[2] *Martha J. Smith, executrix, v. St. Tax Commission,* 245 N. Y. 486; writ of certiorari denied by United States Supreme Court, 48 Sup. Ct. 119.

as being discriminatory between residents and non-residents; the reciprocity provision which was tied up with this flat-rate tax section was also lost through this decision. In 1928 (Ch. 143), the reciprocity provision and the flat-rate tax were reenacted, with the saving clause that the latter should apply only when the tax under it is less than if the non-resident decedent's estate were taxed at the rates applying to a resident decedent's estate.

The Motor Vehicle License Charge

New York is one of the three states[1] which still depend exclusively on motor vehicle license charges for their special highway revenue and make no use of gasoline taxes. This fact, together with the relatively low rates of the license charge, give New York the distinction of having the lightest special highway tax of any state.

Taxation of Private Vehicles

Private passenger cars are taxed according to their net (unladen) weight. The charge is $.50 per hundred pounds up to a weight of 1¾ tons and $.75 for each additional hundred pounds. A minimum fee of from $8 to $10 (according to number of cylinders) is charged.

Private trucks are taxed according to gross weight (car plus load capacity). The charge is $16 up to two tons weight and $8 per additional ton.

Taxation of Common Carriers

Common carrier passenger cars—taxis and buses—are taxed by seating capacity. The charge ranges from $15 to $67.50 for cars up to thirty seats and each seat above this number is taxed $2. Those covering intra-urban areas pay an additional $10 plus the municipal fee.

There is no special charge for common carrier trucks. They are taxed the same as those privately owned.

Special Charges

Certain types of vehicles are taxed at special rates. Electric cars are taxed a flat rate of $10. Ambulances pay a flat

[1] Massachusetts is the only other state which has never levied a gasoline tax· the recent gasoline tax law of Illinois has been declared unconstitutional.

rate of $15. Vehicles which can be used either as passenger cars or light trucks pay $12 if their net weight is less than 1800 pounds; otherwise they are taxed like trucks. Trailers are taxed according to their gross weight from $5 to $30 up to fourteen tons and $5 per additional ton above that weight.

CHAPTER IV

TAX COLLECTIONS AND TAX BURDENS

IT must be anticipated that, as governmental expenses expand, tax revenues must experience a corresponding increase. There need be and in fact there can be, no strict parallel between the two. A larger or a smaller proportion of the total of expenditures in one year or another is covered by borrowing instead of by taxation. Still, over a period of time and in broad outlines, this fundamental parallel between expenditures and tax revenues holds true.

Combined State and Local Tax Collections

The figures for the combined taxes of the state and local governments of New York State from 1917 to 1926 are given in Table 15. The total tax bill for New York in 1917 was $320.6 millions. Five years later, in 1921, it was $521.1 millions, an increase of 62.5%. In 1926, it was $789.3 millions, an increase of 51.5% over the 1921 figure, and representing an increase of 146.2% for the ten-year period.

The Effect of Price Changes

It was indicated that changes in prices must be taken into consideration in arriving at the "true" increase of expenditures, since a dollar today does not have the same purchasing power as a dollar of ten years ago. Similarly, this change in the value of the dollar, or in the level of prices, must be discounted in determining the relative tax burden over a period of years, since the dollar paid by the taxpayer today is of less value to him, in terms of purchasing power, than a decade ago.

When the totals of New York tax revenues are expressed in terms of a dollar of fixed purchasing value—in "1917" dollars[1] or at 1917 prices—it is seen that of the 62.5% in-

[1] Based on Carl Snyder's "general price level" index.

Table 15: The Measures of New York State and Local Tax Burden, Fiscal Years 1917 to 1926

Measures	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
State and Local Tax Collections in Actual and "1917" Dollars (Thousands)										
Actual dollars	$320,603	$357,533	$391,735	$466,456	$521,109	$588,936	$601,022	$643,364	$701,197	$789,348
"1917" dollars[1]	320,603	315,035	308,477	320,721	370,264	477,258	471,834	496,691	535,674	588,100
The Per Capita Tax										
Population (in thousands)	10,058	10,189	10,320	10,457	10,600	10,744	10,887	11,030	11,162	11,304
Per capita tax—actual dollars	$31.88	$35.09	$37.96	$44.61	$49.16	$54.82	$55.21	$58.33	$62.82	$69.83
Per capita tax—"1917" dollars	31.88	30.92	29.89	30.67	34.93	44.42	43.34	45.03	47.99	52.03
Tax Burden per Gainfully Employed										
Gainfully employed (in thousands)	4,379	4,430	4,481	4,534	4,590	4,647	4,702	4,758	4,808	4,863
Tax burden per gainfully employed—actual dollars	$73.21	$80.71	$87.42	$102.88	$113.53	$126.73	$127.82	$135.22	$145.84	$162.32
Tax burden per gainfully employed—"1917" dollars	73.21	71.11	68.84	70.74	80.67	102.70	100.35	104.39	111.41	120.93
The Tax Burden Related to State Income										
State income (in millions)[2]	$7,735	$8,754	$9,795	$11,163	$8,899	$9,246	$10,097	$10,245	$11,031	$11,304
Proportion of state income taken by state and local taxes	4.1%	4.1%	4.0%	4.2%	5.9%	6.4%	6.0%	6.3%	6.4%	7.0%
The Tax Burden Related to State Income plus One-Tenth of State's Wealth										
State income plus $\frac{1}{10}$ of State's wealth[3] (millions)	$12,201	$13,643	$14,977	$16,828	$12,567	$12,950	$13,933	$14,039	$15,042	$15,198
Proportion of state income plus $\frac{1}{10}$ of State's wealth taken by State and local taxes	2.6%	2.6%	2.6%	2.8%	4.1%	4.5%	4.3%	4.6%	4.7%	5.2%

[1] Carl Snyder's "general price level" index used.

[2] For method of calculation, see Appendix A of this volume.

[3] For method of calculation, see Appendix A of this volume.

crease in taxes between 1917 and 1921, about 47% resulted from the decrease in the value of the dollar. Price changes were an insignificant factor in the developments after 1921. With price changes eliminated, the increase of New York's state and local tax collections for the entire period 1917 through 1926 was 83.4%.

The Measure of the Increase of Tax Burdens

New York has grown in both population and relative taxable capacity during these years. Consequently the burden of these taxes has not increased as rapidly as their absolute amounts would indicate. Taxes per capita in 1917 were $31.88; in 1926, they amounted to $69.83; the increase was 119.0%. When price changes are taken into consideration this increase of per capita taxes is reduced to 63.2%.

During these years the income and the wealth of New York increased less rapidly than population. Consequently the increase of taxes as measured by the income of the state and by the population's tax-paying ability (arbitrarily measured by income plus one-tenth of the state's wealth) increased more rapidly. The proportion of the income of the people of the state taken by its taxes in 1917 was 4.1%; in 1926, the proportion was 7%. The ratio of taxes to tax-paying ability in 1917 was 2.6%; in 1926, it was 5.2%.

Relative Tax Burden

Measured on a per capita basis, New York's state and local taxes constitute a considerably heavier burden than the average for all the states. Moreover, during the past few years New York's tax burden has been growing much more rapidly than that of the rest of the country. In 1921, when per capita tax in New York was $49.14, the average per capita state and local tax of the country was $36.27.[1] In 1925, New York's per capita tax was $62.82 and the average for the country was $42.68. The increase of New York's per capita tax during these years was 27.8%, while the increase for the country was 17.7%.

Most of the large industrial states have high per capita taxes. Comparison of New York with these states, however,

[1] National Industrial Conference Board, "The Cost of Government in the United States, 1925–1926," 1927, Table 28, p. 70.

shows that New York's per capita tax of \$62.82 in 1925 was exceeded by only one of these states—New Jersey, whose per capita tax in this year was \$63.22. In Massachusetts the per capita tax for the year was \$60.20; in Minnesota \$54.36; in Wisconsin \$50.50; in Michigan \$51.28; in Indiana \$46.54; in Ohio \$42.96; in Illinois \$41.04; and in Pennsylvania it was \$39.94.[1]

Political Distribution of Tax Collections

Taxes are levied by the state government and in addition by 57 counties, 932 towns, 60 cities, 499 villages and nearly ten thousand independent school districts. Changes in the total of taxes collected from year to year represent the sum total of the increases or decreases of these individual independent agencies. The tax collections of the state and local governments from 1917 to 1926, grouped by receiving agencies, are shown in Table 16.

New York City alone accounts for about half of the tax collections in the state. It should be noted, however, that although the absolute figure of New York City's tax collections increased from \$176.6 millions in 1917 to \$391.1 millions in 1926, there was a definite tendency during this period for its relative importance as a taxing body to decline, since the taxes of other governmental agencies in the state were increasing more rapidly. Thus, in 1917, the tax collections of New York City represented 55.1% of the combined state and local total; by 1925, the percentage was down to 49.5%.

Meanwhile, the state government was increasing in importance as a taxing body. The rate of growth of its annual collections outstripped that of all other taxing bodies. The \$56.3 millions of state taxes collected in 1917 represented 17.6% of the combined total; the \$165.5 millions in 1926 were 21% of the total. This proportion was not far from the average proportion of state to local tax collections for the country, which in 1925 was 22.5%.

The tax receipts of school districts increased very rapidly from 1916 to 1918, jumping from \$11.5 millions in the former year to \$15 millions in the latter; their proportion to the total rose from 3.6% to 4.2% during this period. Since 1918,

[1] *Ibid.*, Table 33, p. 88.

TABLE 16: NEW YORK STATE AND LOCAL TAX COLLECTIONS, DISTRIBUTED ACCORDING TO RECEIVING AGENTS, FISCAL YEARS 1917 TO 1926

(Source: Annual Reports of the Comptroller)

Receiving Agent	1917[3]	1918[4]	1919[5]	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
State	$56,281	$68,943	$73,128	$109,924	$139,724	$116,267	$121,387	$138,431	$151,213	$165,536
Counties	18,389	19,873	21,476	23,997	24,337	28,824	29,512	32,012	34,265	41,250
Towns	11,856	13,085	14,042	17,167	18,618	19,159	20,372	22,449	24,968	28,385
New York City[1]	176,639	186,546	204,330	224,815	232,184	314,447	310,049	321,114	339,708	391,122
All other cities[1]	38,549	47,106	55,772	64,086	74,320	76,837	83,412[6]	88,831	104,829	111,846
Villages	6,737	7,016	7,457	8,323	10,018	10,668	11,664	12,749	14,626	16,591
School districts (outside of cities[2])	12,152	14,964	15,530	18,144	21,908	22,734	24,626	27,778	31,588	34,618
Total	$320,603	$357,533	$391,735	$466,456	$521,109	$588,936	$601,022	$643,364	$701,197	$789,348
Percentage Distribution										
State	17.6	19.3	18.7	23.6	26.8	19.7	20.2	21.5	21.6	21.0
Counties	5.7	5.6	5.5	5.1	4.7	4.9	4.9	5.0	4.9	5.2
Towns	3.7	3.7	3.6	3.7	3.6	3.3	3.4	3.5	3.6	3.6
New York City	55.1	52.1	52.1	48.2	44.5	53.4	51.6	49.9	48.4	49.5
All other cities	12.0	13.1	14.2	13.7	14.3	13.0	13.9	13.8	14.9	14.2
Villages	2.1	2.0	1.9	1.8	1.9	1.8	1.9	2.0	2.1	2.1
School districts (outside of cities)	3.8	4.2	4.0	3.9	4.2	3.9	4.1	4.3	4.5	4.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Data for New York, Buffalo and Rochester for all years, except 1920, prior to 1925, from United States Bureau of the Census: "Financial Statistics of Cities" Series; data for 1920 estimated on basis of taxes collectible as reported by State Tax Commission; data for 1925 and 1926 from Annual Reports of the Comptroller.

[2] Data for school districts (outside of cities) from Annual Reports, University of the State of New York.

[3] 1917—802 towns out of 931 reported $10,436,247 tax collections, tax collections of missing towns calculated on basis of 1915 population. 415 villages out of 468 reported $5,976,965 tax collections, tax collections of missing villages calculated on basis of 1915 population.

[4] 1918—817 towns out of 935 reported $11,412,256 tax collections, tax collections of missing towns calculated on basis of 1915 population. 448 villages out of 468 reported $6,745,560 tax collections, tax collections of missing villages calculated on basis of 1915 population.

[5] 1919—893 towns out of 932 reported $13,573,762 tax collections, tax collections of missing towns calculated on basis of 1915 population. 464 villages out of 467 reported $7,419,473 tax collections, tax collections of missing villages calculated on basis of 1915 population.

[6] Taxes collected in Long Beach, 1923, estimated on basis of taxes collectible as reported by State Tax Commission.

there has been a steady increase in school taxes, but the total for the other taxing bodies has increased at almost the same rate, so that the school districts have very slightly increased their proportion in the combined total of state and local taxes.

The Sources of Tax Revenue

The tax system of New York has not been, for years, in a stationary condition, but as already indicated, it has been in a state of constant change and revision.[1] There have been changes in administrative detail and minor revisions of rates and application; occasionally taxes of long standing, like the liquor excise tax, have been dropped from the tax system, and, particularly in recent years, several new taxes, like the personal income tax and the income tax on mercantile and manufacturing corporations, have been added to the tax system. Between 1917 and 1926, there has been a marked increase in the total of state and local tax revenues; there have also been many redistributions of relative burdens within the system during this period. These developments are shown in Table 17 and in Chart 5.

The general property tax and the auxiliary property taxes have consistently provided from three-fourths to four-fifths of the state and local tax revenue in recent years. Table 17 indicates that, although there has been an increase of those taxes in every year since 1917, their relative importance in the state and local tax system is steadily declining. Prior to 1918, the general property tax invariably yielded over eighty per cent of the state's tax revenue; in no year since 1918 has the proportion reached this point.

The relative importance of the auxiliary property taxes has varied according to the number and importance of the taxes included in the group in the different years. Prior to 1917, this category included the bank stock tax, the mortgage tax, the stock transfer tax and the secured debts tax. In 1917, the investments tax was substituted for the secured debts tax, but the investments tax was discarded in 1920. The moneyed capital tax first appeared in this group in 1923. The bank stock and moneyed capital taxes were repealed in 1927, and a

[1] See Chapter III of this volume.

Table 17: New York State and Local Taxes Collectible, Distributed by Types of Taxes, Fiscal Years 1917 to 1926

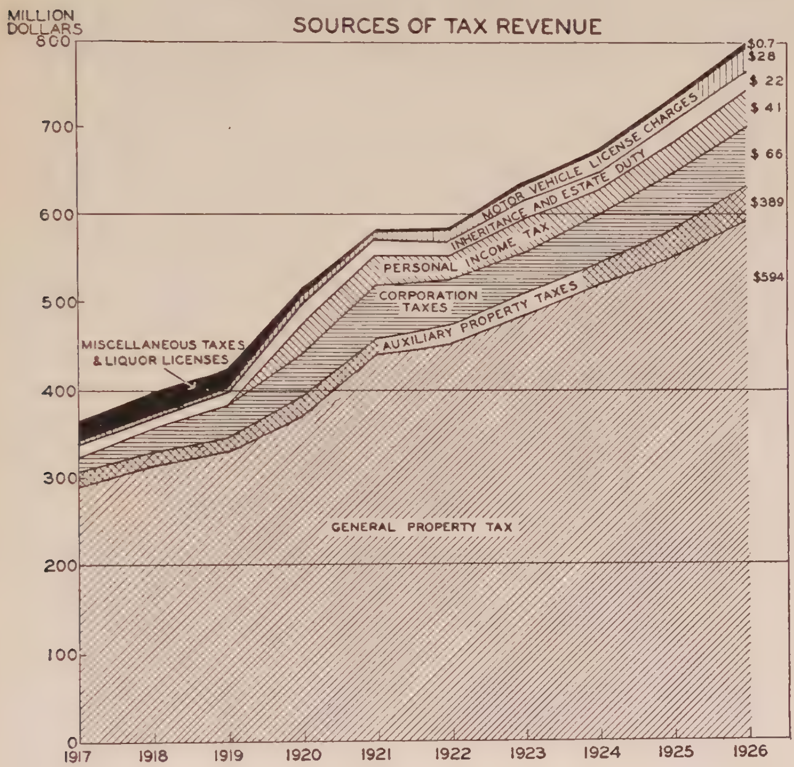
(Source: Report of the State Tax Commission, 1925, Table 5)

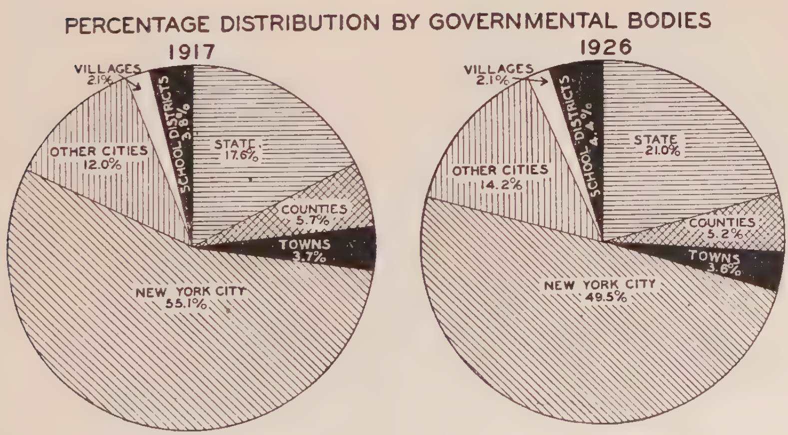
Taxes	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
General property tax	$289,070	$313,173	$328,761	$368,411	$439,029	$452,190	$482,727	$518,151	$549,348	$594,379
Auxiliary property taxes[1]	16,362	14,049	16,508	23,270	18,863	21,702	26,190	26,430	32,314	38,858
Corporation taxes	16,261	30,027	36,296	49,308	60,895	51,435	45,875	54,371	64,942	66,140
Personal income tax	..	..	..	34,642	36,435	29,669	37,771	27,923	33,767	41,179
Inheritance tax and estate duty	13,792	11,433	13,340	21,260	18,136	15,385	17,786	19,370	23,585	22,223
Motor vehicle license charges	4,284	4,945	5,985	8,863	10,465	12,736	19,428	22,810	26,612	28,471
Liquor license tax	20,748	22,616	20,692	5,243	..	..	..	..	..	..
Miscellaneous taxes	48	42	46	42	38	43	403	496	522	723
Total	$360,565	$396,285	$421,628	$511,039	$583,861	$583,160	$630,180	$669,551	$731,090	$791,973
Percentage Distribution										
General property tax	80.2	79.0	78.0	72.1	75.2	77.6	76.6	77.4	75.2	75.0
Auxiliary property taxes[1]	4.5	3.5	3.9	4.6	3.2	3.7	4.1	3.9	4.4	4.9
Corporation taxes	4.5	7.6	8.6	9.6	10.4	8.8	7.3	8.1	8.9	8.4
Personal income tax	..	..	..	6.8	6.3	5.1	6.0	4.2	4.6	5.2
Inheritance tax and estate duty	3.8	2.9	3.2	4.2	3.1	2.6	2.8	2.9	3.2	2.8
Motor vehicle license charges	1.2	1.3	1.4	1.7	1.8	2.2	3.1	3.4	3.6	3.6
Liquor license tax	5.8	5.7	4.9	1.0	..	..	..	..	..	..
Miscellaneous taxes	[2]	[2]	[2]	[2]	[2]	[2]	.1	.1	.1	.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes mortgage, secured debts, investment, bank stock, moneyed capital and stock transfer taxes.
[2] Less than .05%.

CHART 5: NEW YORK STATE AND LOCAL TAX COLLECTIONS, 1917 TO 1926

(National Industrial Conference Board)





new tax on banking institutions was introduced in the corporation tax group. The bank stock and moneyed capital taxes produced about nine million dollars annually, so that their withdrawal will reduce the revenue attributed to the auxiliary property tax group of taxes by about one-third.

The increase in the yield of the stock transfer tax has been remarkable. In 1917, it produced $24 millions. In 1920, an exceptional year, the yield was $10.6 millions. The following year it dropped to $7.1 millions. A steady increase thereafter resulted in a revenue of $15.8 millions in 1926.

Two taxes were added to the group of corporation taxes during the period 1917 to 1926. These were the tax on mercantile and manufacturing corporations and the tax on investment companies. The franchise tax on banks and financial institutions, enacted in 1927, will not affect the figures for tax receipts on taxes collectible until 1928.

The addition of the tax on mercantile and manufacturing corporations practically doubled the revenue from the corporation tax group. In 1917, all these taxes together yielded $16.3 millions. The tax on mercantile and manufacturing corporations, during its first year at a 3% rate, produced $14.8 millions, bringing the total yield for the corporation taxes in 1918 to $30 millions.

In pre-Prohibition days the liquor license was a fruitful source of state revenue. In 1913, 4.3% of all state and local revenue throughout the country was derived from this[1] tax. In New York, by the second half of the decade, the proportion was even higher. In 1917, 5.8% of the state and local revenue came from this source. This revenue, of course, disappeared with the abolition of the liquor traffic. Presumably, no more liquor license revenue was collectible after 1920, though, as a matter of fact, as shown in Table 18 which gives the figures for *taxes collected* instead of *taxes collectible*, there were small collections of back taxes in succeeding years.

The personal income tax was first collectible in 1920, and $34.6 millions were listed for collection in that year. Lower

[1] United States Bureau of the Census, "Wealth, Debt and Taxation," 1913, Vol. II.

rates in later years[1] held down the increase that would have come with the general growth of population and income. The restoration of full rates on 1926 income will undoubtedly result in a sharp increase in collections in 1927. Under the influence of three-quarter rates in 1923, 1924 and 1925, the proportion of income tax receipts to total revenue declined from 6.8% in 1920 to 4.6% in 1925; the proportion increased in 1926 to 5.2%.

The inheritance tax consistently produced from 2% to 4% of New York's state and local revenue from 1917 to 1926. The addition of the estate duty[2] has resulted in a significant increase in both the absolute amount and the relative proportion of state and local revenue from this source.

The revenue from motor vehicle license charges has shown the greatest increase of all New York's taxes. In the first year of its levy, 1901, the revenue obtained was $901. In 1917, the receipts were $4.3 millions. Increases in rates and the astounding growth of the number of cars raised the revenue from this tax to $28.5 millions in 1926. In this year it constituted 3.6% of the total revenue.

State Tax Revenues

For many years New York has been a testing ground for the various theories of the interrelation of state and local finances.[3] Separation of the sources of revenue, assigning certain sources to the local governments and the remainder to the state government, has been tried; so has the centralized collection of taxes with a distribution of a part of the revenue derived to the localities from which it is collected. A third attempt to solve this problem has been the development of state aid to local governments for stipulated projects.

These three principles are applied in the present tax system of New York. Consequently, the distribution of the tax revenue of the state government according to the sources of this revenue differs widely from the distribution of the

[1] See Chapter VII of this volume.
[2] See Chapter VII of this volume.
[3] Chapter IX is devoted to this subject.

combined revenues of the state and local governments. This is shown clearly in Table 18, which presents the tax receipts of the New York state government from 1917 to 1926.

The Property Taxes

From 1906 through 1910 and again in 1916, the state government levied no general property tax, leaving this source of revenue to the local governments. In all other years the state levied a general property tax, adjusting the rates, however, in accordance with the revenue needs of the state government. The greatest receipts were in 1920, when $35 millions were collected, 27% of the total state tax receipts. In 1926, $20.8 millions were collected, representing 13.4% of the total revenues of the year.

All the revenues from the bank stock and moneyed capital taxes during the period of their levy went to the local governments. The collections on the mortgage tax and the earlier secured debts and investments taxes were divided equally between the state government and the local governments. The stock transfer tax, however, is purely a state tax. Because of the preponderance of the stock transfer tax in the auxiliary property tax group, the revenue from this set of taxes is a more important item in the state receipts than in the combined tax revenue. These taxes have yielded between 7% and 15% of the total of state receipts during the past ten years. Although the state's revenue from these taxes has tended to increase steadily, the more rapid expansion of other sources of revenue diminished the relative importance of the auxiliary property tax group until 1925 and 1926. In these two years, a ten million dollar increase in the yield of this group of taxes raised the proportion of the group from 9.3% in 1924 to 14.1% in 1926.

The Corporation Taxes

The state government receives all the revenue from the corporation taxes except in the case of the taxes on commercial banks and on mercantile and manufacturing corporations; one-third (originally one-half) of the latter tax is distributed back to the localities. It is not surprising, therefore, that the corporation taxes constitute the major item

Table 18: State Tax Receipts, Fiscal Years 1917 to 1926

(Source: Annual Reports of the State Tax Commission)

Taxes	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
General property tax	$13,051	$13,272	$13,523	$35,006	$22,340	$19,877	$32,468	$26,020	$28,529	$20,795
Auxiliary property taxes[1]	9,787	7,651	8,762	13,071	9,519	10,494	12,245	12,139	17,345	21,976
Corporation taxes	16,261	24,866	29,799	37,715	48,114	40,471	38,333	44,002	52,013	54,202
Personal income tax	..	..	..	16,500	18,250	14,900	17,900	9,583	10,491	14,405
Inheritance tax and estate duty	13,792	11,433	13,340	21,260	18,135	15,385	17,786	19,369	23,585	22,223
Motor vehicle license charges	2,026	2,678	2,510	4,214	8,299	10,652	13,279	18,528	19,324	21,507
Liquor license tax	12,685	11,045	5,487	2,040	234	21	6	1	1	..
Miscellaneous taxes[2]	32	24	29	25	21	26	201	247	258	363
Total	$67,642	$70,969	$73,450	$129,831	$124,912	$111,826	$132,218	$129,889	$151,546	$155,471
Percentage Distribution										
General property tax	19.3	18.7	18.4	27.0	17.9	17.8	24.5	20.0	18.8	13.4
Auxiliary property taxes[1]	14.5	10.8	11.9	10.1	7.6	9.4	9.3	9.3	11.4	14.1
Corporation taxes	24.0	35.0	40.6	29.0	38.6	36.2	29.0	33.9	34.3	34.9
Personal income tax	..	..	..	12.7	14.6	13.3	13.5	7.4	6.9	9.3
Inheritance tax and estate duty	20.4	16.1	18.2	16.4	14.5	13.8	13.5	14.9	15.6	14.3
Motor vehicle license charges	3.0	3.8	3.4	3.2	6.6	9.5	10.0	14.3	12.8	13.8
Liquor license tax	18.7	15.6	7.5	1.6	.2	[3]	[3]	[3]	[3]	[3]
Miscellaneous taxes[2]	.1	[3]	[3]	[3]	[3]	[3]	.2	.2	.2	.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes state's share of mortgage, secured debts, investment and stock transfer taxes.
[2] Includes state's share of license tax on real estate brokers, license tax on billiard and pool rooms, and shellfish grounds tax.
[3] Less than .05%.

on the state tax list. In 1919, the year before the income tax was collected, the corporation taxes constituted 40.6% of the state government's revenues. In more recent years, the proportion has varied between 29% and 38.6%.

Other Taxes

The half of the personal income tax going to the state government has been a major item of state tax revenue from the date of its introduction. From 1920 through 1923, it provided about thirteen per cent of the revenue of the state government; the temporary reduction of the rates by one-fourth lowered this proportion during the next few years. It is to be anticipated that the restoration of the full rates on 1926 income will again raise its relative importance.

The inheritance tax is often charged with being so erratic in its returns that it is not to be depended upon as a consistent source of revenue. In New York, however, the number of decedents with taxable estates in any year is so large that inequalities are largely wiped out. Unless a plague or a cataclysm should suddenly decimate the population of the state, this is a condition likely to continue. The addition of new sources of state revenue in recent years has somewhat reduced the relative importance of the inheritance tax, but from 1920 through 1926 it accounted for from one-sixth to one-seventh of the annual state revenue.

The motor vehicle license revenue reserved to the state has increased as the total collections of this tax have increased. In 1926, it yielded 13.8% of the state government's revenue.

Local Tax Revenues

County Taxes

The tax receipts of the counties for the four calendar years 1923 through 1926, are shown in Table 19. Until recent years, the counties were exclusively dependent upon the general property tax. They have been allowed a portion of the motor vehicle license charges, and as the revenue from this tax has grown, their share has increased. In 1924, they first received a share of the license tax on real estate brokers and salesmen, but this is such a small item as to be almost negligible.

Town Taxes

The towns have a broader and more variegated tax system. As shown in Table 20, they have been receiving revenue from the general property tax, from the bank stock and moneyed capital taxes, from the franchise tax on mercantile and manufacturing corporations, from the mortgage tax, from the personal income tax, from the counties' share of the motor vehicle license charges and the chauffeur's license charge, and from the license tax on pool and billiard rooms. Beginning in 1927, the franchise tax on banking and financial

TABLE 19: COUNTY TAXES, CALENDAR YEARS 1923 TO 1926
(Source: Annual Reports of the State Tax Commission)

Taxes	1923	1924	1925	1926
Amount (in Thousands)				
General property tax	$42,435	$45,560	$50,748	$53,173
Real estate brokers' tax	..	25	34	40
Highway revenue	820	912	1,577	1,759
Total	$43,255	$46,497	$52,359	$54,972
Percentage Distribution				
General property tax	98.1	98.0	96.9	96.7
Real estate brokers' tax[1]	..	.1	.1	.1
Highway revenue	1.9	1.9	3.0	3.2
Total	100.0	100.0	100.0	100.0

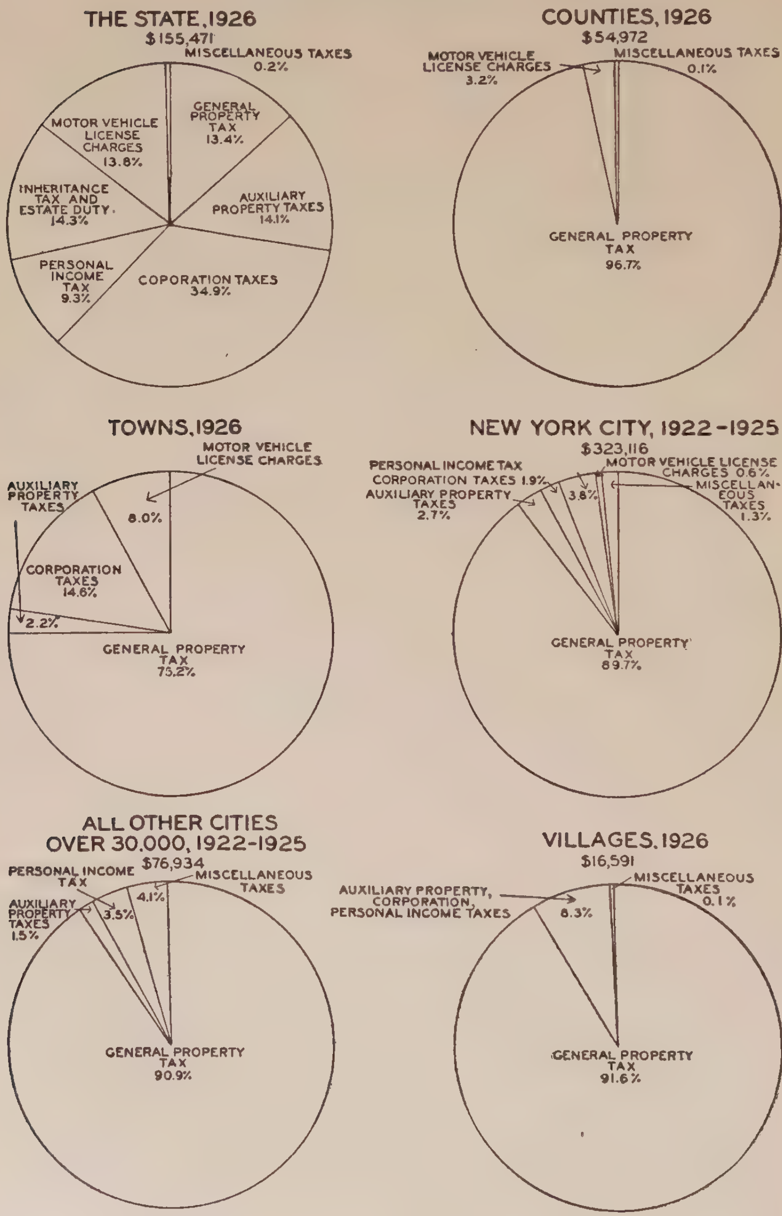
[1] Local share of this tax distributed between counties and cities on basis of general property tax assessments.

institutions will replace the bank stock and moneyed capital taxes.

Three quarters of the towns' revenue comes from the general property tax. Although the actual receipts from this tax are increasing each year, the revenue from the other taxes is growing at a more rapid rate, so that the proportion of the general property tax to total town revenues has declined in recent years. The towns' share of the franchise tax on mercantile and manufacturing corporations, of the mortgage tax and of the personal income tax is increasing steadily and amounted to $5.5 millions in 1926, representing 14.6% of their total revenues for the year.

Chart 6: Sources of Revenue of the New York Governmental Divisions

(National Industrial Conference Board)



City Taxes

New York City's tax system differs in little except magnitude from the tax systems of the other cities of the state. The metropolis, including as it does five counties in its city organization, derives a small revenue from its counties' share in the distribution of the personal income tax, the motor vehicle license revenue and the corporation taxes, but this item is not large enough to upset the similarity of the distribution of the tax revenues as between New York

TABLE 20: TOWN TAXES, CALENDAR YEARS 1923 TO 1926
(Source: Annual Reports of the State Tax Commission)

Taxes	1923	1924	1925	1926
Amount (in Thousands)				
General property tax	$21,553	$23,750	$25,571	$28,441
Bank stock tax	604	733	751	816
Moneyed capital tax	3	1	3	2
Business corporation tax, Mortgage tax, Personal income tax[1]	4,336	4,432	5,861	5,519
Highway revenue[2]	2,157	2,943	2,698	3,007
Pool and billard room tax	..	2	2	2
Total	$28,657	$31,861	$34,886	$37,787
Percentage Distribution				
General property tax	75.3	74.6	73.3	75.2
Bank stock tax	2.1	2.3	2.2	2.2
Moneyed capital tax	[3]	[3]	[3]	[3]
Business corporation tax, Mortgage tax, Personal income tax[1]	15.1	13.9	16.8	14.6
Highway revenue[2]	7.5	9.2	7.7	8.0
Pool and billiard room tax	..	[3]	[3]	[3]
Total	100.0	100.0	100.0	100.0

[1] The villages receive about $1,000,000 annually of the local share of these taxes (see Table 23 below). To determine the share of the towns, $1,000,000 has therefore been deducted from the total of these taxes distributed locally each year.

[2] Distribution on basis of reports of the State Bureau of Highways.

[3] Less than .05%.

City and the other cities. The tax revenues of New York City for the period 1917 to 1925 are shown in Table 21, and those of the nineteen other cities with populations of over 30,000 in Table 22.

The general property tax is still by far the largest item of city revenue. Although the revenue derived from it by the city governments is increasing, its relative importance

Table 21: Tax Revenues of New York City, Fiscal Years 1917 to 1925

(Source: United States Bureau of the Census, "Financial Statistics of Cities" Series, and Reports of the State Tax Commission)

Taxes	1917	1918	1919	Average 1917 through 1919	1922	1923	1924	1925	Average 1922 through 1925
Amount (in Thousands)									
General property tax	$164,248	$172,813	$185,331	$174,131	$289,019	$279,240	$285,544	$305,605	$289,852
Bank stock tax	3,676	4,028	4,271	3,991	1,153	2,480	5,979	6,553	4,041
Moneyed capital tax	..	..	..	..	..	2,354	1,416	688	1,114
Mortgage tax	910	618	752	760	2,368	3,276	3,520	4,579	3,436
Personal income tax	..	..	..	..	10,021	12,365	12,025	15,041	12,363
Corporation income tax	..	..	3,102	1,034	6,173	4,281	6,286	7,562	6,076
Business licenses	6,544	7,390	9,123	7,686	2,433	2,213	2,407	2,545	2,399
Motor vehicle fees	..	..	..	..	1,363	1,916	2,132	2,409	1,955
Non-business licenses and permits	1,260	1,697	1,750	1,569	1,916	1,923	1,804	1,876	1,880
Net tax revenue	$176,638	$186,546	$204,329	$189,171	$314,446	$310,048	$321,113	$346,858	$323,116
Special assessments	14,800	8,875	6,788	10,154	9,284	10,246	11,031	13,940	11,125
Gross total	$191,438	$195,421	$211,117	$199,325	$323,730	$320,294	$332,144	$360,798	$334,241
Percentage Distribution of Net Tax Revenues									
General property tax	93.0	92.6	90.6	92.1	91.9	90.1	88.9	88.1	89.7
Bank stock tax	2.1	2.2	2.1	2.1	.4	.8	1.9	1.9	1.3
Moneyed capital tax	..	..	..	..	..	.8	.4	.2	.3
Mortgage tax	.5	.3	.4	.4	.7	1.0	1.1	1.3	1.1
Personal income tax	..	..	..	..	3.2	4.0	3.7	4.3	3.8
Corporation income tax	..	..	1.5	.5	2.0	1.4	2.0	2.2	1.9
Business licenses	3.7	4.0	4.5	4.1	.8	.7	.7	.7	.7
Motor vehicle fees	..	..	..	..	.4	.6	.7	.7	.6
Non-business licenses and permits	.7	.9	.9	.8	.6	.6	.6	.6	.6
Net tax revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage That Special Assessments Are of Gross Tax Revenues									
Percent	7.7	4.5	3.2	5.1	2.9	3.2	3.3	3.9	3.3

TABLE 22: TAX REVENUES OF NEW YORK CITIES WITH POPULATIONS OF OVER 30,000 (EXCEPT NEW YORK CITY), FISCAL YEARS 1917 TO 1925

(Source: United States Bureau of the Census, "Financial Statistics of Cities" Series, and Reports of the State Tax Commission)

Taxes	All Cities (Except New York City) over 30,000 in 1917									All Cities (Except New York City) over 30,000							
	1917	1918	1919	Average 1917 through 1919	1922	1923	1924	1925	Average 1922 through 1925	1918	1919	Average 1917 through 1919	1922	1923	1924	1925	Average 1922 through 1925
Amount (in Thousands)																	
General property tax	$37,186	$37,294	$44,354	$39,611	$59,776	$66,427	$70,167	$77,878	$68,562	$37,684	$44,764	$39,878	$61,163	$67,849	$70,967	$79,825	$69,951
Bank stock tax	692	554	576	607	543	189	468	681	470	566	589	616	556	201	485	716	489
Moneyed capital tax	..	..	..	..	..	..	..	5	1	..	..	..	..	..	3	6	2
Mortage tax	243	265	197	235	401	647	770	771	647	267	199	236	404	659	792	779	659
Personal income tax	..	..	..	..	2,180	2,446	2,596	3,212	2,609	..	..	..	2,242	2,524	2,674	3,290	2,683
Business licenses	2,014	2,870	4,655	3,180	2,874	2,396	2,839	3,462	2,893	2,906	4,681	3,201	2,957	2,442	2,905	3,573	2,969
Non-business licenses and permits	94	101	48	81	137	137	195	237	177	102	48	81	141	142	200	241	181
Net tax revenue	$40,229	$41,084	$49,830	$43,714	$65,911	$72,242	$77,035	$86,246	$75,359	$41,525	$50,281	$44,012	$67,463	$73,817	$78,026	$88,430	$76,934
Special assessments	4,825	4,424	4,407	4,552	5,395	6,491	7,293	8,923	7,025	4,448	4,434	4,569	5,485	6,525	7,364	8,998	7,093
Gross total	$45,054	$45,508	$54,237	$48,266	$71,306	$78,733	$84,328	$95,169	$82,384	$45,973	$54,715	$48,581	$72,948	$80,342	$85,390	$97,428	$84,027
Percentage Distribution of Net Tax Revenues																	
General property tax	92.5	90.7	89.1	90.7	90.8	91.9	91.1	90.3	91.0	90.8	89.0	90.6	90.6	91.9	91.0	90.3	90.9
Bank stock tax	1.7	1.4	1.1	1.4	.8	.3	.6	.8	.6	1.4	1.2	1.4	.8	.3	.6	.8	.6
Moneyed capital tax	..	..	..	..	..	..	..	[1]	[1]	..	..	..	..	..	[1]	[1]	[1]
Mortgage tax	.6	.7	.4	.5	.6	.9	1.0	.9	.9	.6	.4	.5	.7	.9	1.0	.9	.9
Personal income tax	..	..	..	..	3.3	3.4	3.4	3.7	3.5	..	..	..	3.3	3.4	3.4	3.7	3.5
Business licenses	5.0	7.0	9.3	7.2	4.3	3.3	3.7	4.0	3.8	7.0	9.3	7.3	4.4	3.3	3.7	4.0	3.9
Non-business licenses and permits	.2	.2	.1	.2	.2	.2	.2	.3	.2	.2	.1	.2	.2	.2	.3	.3	.2
Net tax revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.	100.0	100.0
Percentage That Special Assessments Are of Gross Tax Revenues																	
	10.7	9.7	8.1	9.4	7.6	8.2	8.6	9.4	8.5	9.7	8.1	9.4	7.5	8.1	8.6	9.2	8.4

[1] Less than .05%.

in the total of city revenue is slowly declining. The most important of the new sources of revenues tapped by the city governments is their share in the personal income tax collected by the state. In 1925, this tax yielded $15 millions to New York City, or 4.3% of the year's tax revenue; the other nineteen cities with populations of over 30,000 derived $3.3 millions, or 3.7% of their net tax revenues, from the personal income tax. The smaller cities derive considerable revenue from special business license taxes.

New York City and the smaller cities levy special assessments to finance certain types of public improvements. In the smaller cities such special assessments are more important, in view of the total gross revenues of these cities, than in New York City.

Village Taxes

The villages share with the counties, towns and cities in the local portion of the revenue from the franchise tax on mercantile and manufacturing corporations, from the mortgage tax and from the personal income tax. They also share with the towns the revenue from the pool and billiard room licenses. In addition they levy their own rates for the general property tax, and some of them levy poll taxes. Their revenue from these sources for the fiscal years 1918 to 1926 is shown in Table 23.

The general property tax contributes the major, though a decreasing proportion, of the village tax revenue. In 1926, this proportion was 91.6%. The proportion of the revenue from the business corporation, mortgage and personal income taxes, on the other hand, has increased. The highest ratio, 10.6%, was achieved in 1922; the $1.4 millions obtained from these taxes in 1926, represented 8.3% of the total of the village taxes in that year. The receipts from the poll tax and from the pool and billiard room tax are inconsiderable.

School District Taxes

The school districts in so far as local taxes are concerned depend exclusively upon the general property tax. Their receipts from 1916 to 1926 are shown in Table 16.[1]

[1] See p. 88 of this volume.

Table 23: Village Taxes, Fiscal Years 1918 to 1926

(Source: State Tax Commission's and Comptroller's Annual Reports)

Taxes	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)									
General property tax	$6,796	$7,077	$7,783	$8,966	$9,514	$10,619	$11,730	$13,458	$15,198
Business corporation tax, Mortgage tax, Personal income tax	203	325	523	1,035	1,136	1,027	999	1,148	1,373
Poll tax	17	17	17	17	17	18	19	19	19
Pool and billiard room tax	..	..	..	..	..	..	1	1	1
Total	$7,016	$7,419	$8,323	$10,018	$10,667	$11,664	$12,749	$14,626	$16,591
Percentage Distribution									
General property tax	96.9	95.4	93.5	89.5	89.2	91.0	92.0	92.0	91.6
Business corporation tax, Mortgage tax, Personal income tax	2.8	4.4	6.3	10.3	10.6	8.8	7.9	7.9	8.3
Poll tax	.3	.2	.2	.2	.2	.2	.1	.1	.1
Pool and billiard room tax	..	..	..	..	..	..	[1]	[1]	[1]
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Less than .05%.

CHAPTER V

THE SOCIAL AND ECONOMIC DISTRIBUTION OF NEW YORK'S TAX BURDEN

UNTIL very recently, there have been available almost no data indicating how the state and local tax burden is distributed among classes and economic groups. The collection of fiscal data by the Bureau of Internal Revenue, by the State Tax Commission and by other official and non-official agencies has now proceeded to a point where some general observations on the social and economic distribution of New York's tax burden can be made, though the data are still fragmentary, and no complete analysis of the problem is possible.

The General Tax Burden by Income Classes

Statistics on state and local taxes paid by individuals and allowed as deductions to determine their taxable income under the federal personal income tax give an indication of the distribution of state and local tax burdens on taxpayers of different income classes. Table 24 shows for individual taxpayers in New York and in all other states the ratios of their state and local taxes in 1924 to their net incomes for that year.

The Relative Burden of Taxes Paid by Individuals

The average burden of the state and local taxes paid by New York residents in 1924, measured by their net income,[1] was 3.4%. With a few marked exceptions, there was little variation in the tax burdens of the various income classes; that is, the taxes paid tended to be *proportional* to the income. The marked exceptions were the income class be-

[1] "Net income" as here used consists of taxable income plus contributions, plus the state and local taxes paid. It does not include total or partially tax-exempt income on which no tax is paid. To this extent it falls short of the economic concept of "net income."

TABLE 24: BURDEN OF STATE AND LOCAL DIRECT TAXES BY INCOME CLASSES, IN NEW YORK STATE AND IN ALL OTHER STATES, 1924

(Source: United States Bureau of the Census)

Income Classes	New York			All Other States		
	Net[1] Income (Thousands)	State and Local Direct Taxes (Thousands)	Ratio (Per Cent)	Net Income[1] (Thousands)	State and Local Direct Taxes (Thousands)	Ratio (Per Cent)
Under $1,000	$42,454	$4,666	11.0	$250,691	$43,175	17.2
$1,001– 2,000	548,015	14,813	2.7	3,212,484	118,074	3.7
2,001– 3,000	877,999	27,725	3.2	4,696,798	192,407	4.1
3,001– 4,000	734,281	24,457	3.3	3,575,662	159,950	4.5
4,001– 5,000	593,859	19,974	3.4	2,362,113	105,023	4.4
5,001– 6,000	159,082	4,951	3.1	749,073	33,593	4.5
6,001– 7,000	140,591	4,352	3.1	598,779	24,501	4.1
7,001– 8,000	121,442	3,577	2.9	481,798	19,874	4.1
8,001– 9,000	100,401	3,088	3.1	390,556	15,331	3.9
9,001– 10,000	92,032	3,027	3.3	343,583	13,452	3.9
10,001– 11,000	78,500	2,504	3.2	282,156	10,616	3.8
11,001– 12,000	70,694	2,108	3.0	253,044	9,873	3.9
12,001– 13,000	62,925	1,928	3.1	220,959	8,224	3.7
13,001– 14,000	55,153	1,725	3.1	201,142	7,149	3.6
14,001– 15,000	52,729	2,574	4.9	179,005	6,912	3.9
15,001– 20,000	208,990	6,473	3.1	701,369	25,389	3.6
20,001– 25,000	159,423	5,352	3.4	500,187	17,755	3.5
25,001– 30,000	123,683	3,828	3.1	377,468	12,236	3.2
30,001– 40,000	186,061	5,844	3.1	516,200	16,324	3.2
40,001– 50,000	130,939	4,141	3.2	342,341	10,533	3.1
50,001– 60,000	98,856	3,265	3.3	245,424	8,644	3.5
60,001– 70,000	80,393	2,728	3.4	188,371	5,925	3.1
70,001– 80,000	62,650	2,157	3.4	138,008	3,767	2.7
80,001– 90,000	50,420	2,714	5.4	118,889	3,748	3.1
90,001– 100,000	43,654	1,478	3.4	86,907	2,489	2.9
100,001– 150,000	142,971	5,592	3.9	249,608	6,882	2.8
150,001– 200,000	76,503	2,864	3.7	118,728	3,290	2.8
200,001– 250,000	53,558	2,464	4.6	75,440	2,593	3.4
250,001– 300,000	25,528	1,383	5.4	47,365	1,483	3.1
300,001– 400,000	41,998	1,526	3.6	72,095	1,936	2.7
400,001– 500,000	32,284	1,858	5.8	33,466	699	2.1
500,001– 750,000	54,999	1,860	3.4	65,312	1,401	2.1
750,001–1,000,000	15,352	397	2.6	27,201	613	2.3
1,000,001–1,500,000	27,363	771	2.8	20,179	400	2.0
1,500,001–2,000,000	7,302	162	2.2	14,228	142	1.0
2,000,001–3,000,000	28,139	4,471	15.9	14,372	919	6.4
Over 3,000,000	32,475	931	2.9	31,852	465	1.5
Total	$5,413,699	$183,729	3.4	$21,782,853	$895,786	4.1

[1] Net income includes taxable net income as reported for the federal personal income tax plus contributions and state and local direct taxes paid, and minus capital losses. Does not include tax exempt income.

low $1,000 which bore a tax burden of 11%, and that between $2,000,000 and $3,000,000 which showed a ratio of taxes to net income of 15.9%. Four other income groups, the $14,000 to $15,000 class, the $80,000 to $90,000 class, the $250,000 to $300,000 class, and the $400,000 to $500,000 class, showed tax burdens slightly higher than the average. The causes for these exceptions can not be determined, but, distributed as they are along the whole line of the income schedule, they do not invalidate the generalization based on Table 24, that in New York, state and local taxes fall upon individuals more or less proportionately to their incomes.

This tendency of the New York tax system is in marked contrast to the situation in other states, where the burden of state and local taxes seems to be heavier upon the lower income classes than upon the higher income classes. In these other states, the income classes below $10,000 pay taxes which average 5.4% of their net income. The middle groups from $10,000 to $100,000 have an average tax burden of 3.4%, while individuals with incomes over $100,000 pay only 2.7% of their net income in taxes.

General Considerations

This calculation of tax burdens on the basis of incomes and deductions reported for the federal personal income tax leaves two important factors out of consideration: (1) the general distribution of those taxes which are shifted to the consumers and (2) the effect of corporation taxes to the extent that they are borne by shareholders of the taxed corporations. Those taxes which are shifted to consumers tend to fall more heavily upon the lower income classes in proportion to their incomes than upon richer individuals. Contrariwise, since dividends constitute a larger portion of the higher incomes than of the lower, corporation taxes falling upon shareholders, to the extent that they are reflected in a reduction of dividends, bear more heavily upon the higher income classes.

General taxes on economic activities or relations (except net income taxes) tend to be shifted to consumers of the commodities or services involved. In the case of state and local taxes, however, this tendency is limited if the relative

tax burden of the state in question exceeds the tax burdens of the states where competing commodities or services are produced. New York has placed a heavier tax burden on its taxpayers, whether measured per capita[1] or as a burden on corporate industry,[2] than most of the competing industrial states. It is less possible, therefore, to shift the taxes imposed on business and economic activity in New York than those of other states. In view of these considerations there is no greater burden placed on the lower income classes by these taxes in New York than in other states.

As indicated in a later section of this Chapter, corporations in New York bear a relatively heavy tax burden. They are also probably more limited in the possibility of shifting their taxes than are the corporations of other states. Consequently, their shareholders may bear a somewhat heavier tax burden that the shareholders of the corporations operating in other states. However, the shares of New York corporations are not confined to New York shareholders, nor are New York shareholders limited to the shares of New York corporations. It is probable that there is a concentration of the shares of New York corporations in the possession of New York shareholders, but not enough seriously to affect the distribution of New York's tax burden by income classes.

If anything, the effect of taxes which can be shifted and of corporation taxes borne by shareholders would be to cause New York's tax burden to rest relatively more heavily on the richer elements of the population as compared with the tax burdens of other states. Table 24 shows that New York's personal income tax system imposed a direct tax burden that was proportional, while the average for the other states was a regressive burden, that is, one heavier on the lower income classes. The relative effect, if any, of relative business tax burdens would be to emphasize this difference.

The Farm Tax Burden

For the country in general, farm taxes increased during the first two decades of the twentieth century, but farm in-

[1] See p. 86 of this volume. [2] See Chapter VII of this volume.

come kept pace with the taxes, and from 1917 to 1919 farm income increased more rapidly than taxes. Since 1920, farm income has been reduced by nearly one-half, but farm taxes continued to increase until very recently. Farm tax payments which were hardly felt in 1919 became a crushing burden from 1921 on. This absence of correlation between farm income and farm taxes constitutes the national "farm tax problem."[1]

A parallel farm tax problem developed in New York during the same period, and its effects cannot be overlooked in considering the development of New York's tax system.

The Trend of Farm Taxes

Table 25 and Chart 7 give index numbers for farm taxes, farm assessments, and farm prices based on a survey of

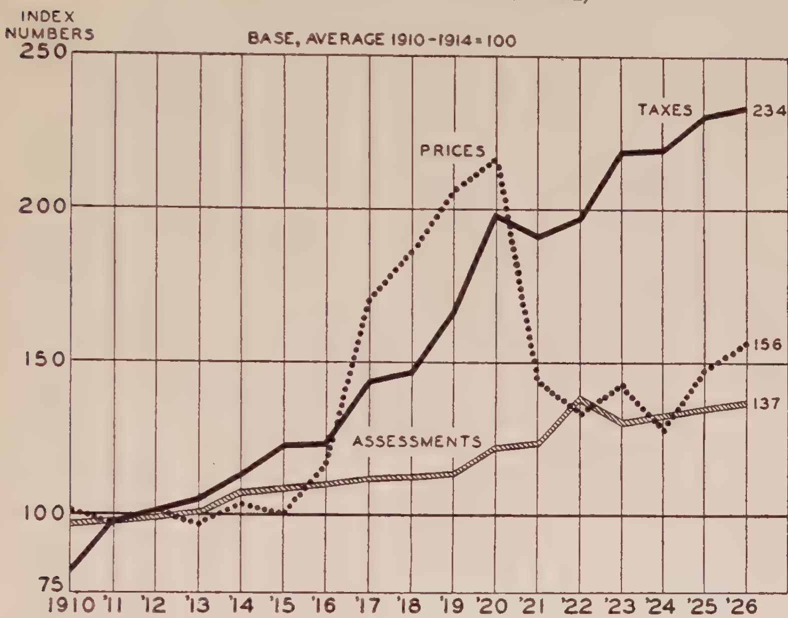
TABLE 25: FARM TAXES, FARM ASSESSMENTS AND FARM PRICES IN 34 SELECTED TOWNS IN NEW YORK STATE

(Source: Cornell University, Agricultural Experiment Station, Bulletin 457)

Years	Index Number of Farm Taxes (1910–1914 = 100)	Census Value per Acre of Farm Lands and Buildings	Index Number of Real and Personal Property Assessment (1910–1914 = 100)	Prices Paid to Farmers in New York (1910–1914 = 100)
1880	..	$46.60	..	..
1890	64	46.40	114	..
1900	59	38.90	94	..
1910	82	49.60	97	101
1911	98	..	98	97
1912	101	..	99	101
1913	105	..	100	97
1914	113	..	107	103
1915	122	..	108	100
1916	123	..	109	116
1917	143	..	111	170
1918	146	..	112	186
1919	166	..	113	206
1920	198	64.90	121	217
1921	191	..	123	144
1922	197	..	138	134
1923	219	..	130	142
1924	220	..	132	128
1925	231	68.60	135	147
1926	234	..	137	156

[1] National Industrial Conference Board, "Cost of Government in the United States, 1925–1926," pp. 106–107.

CHART 7: NEW YORK FARM TAXES, ASSESSED FARM VALUES AND FARM PRICES, 1910 TO 1926
(National Industrial Conference Board)



thirty-four representative rural towns.[1] Farm taxes in these townships are seen to have more than doubled during the period 1914 through 1925. Every year saw an increase of the farm taxes over those of the preceding year.

During a short period like this and under the circumstances of New York agriculture, there was little possibility of bringing under cultivation much new land. It cannot be argued, therefore, that this increase of farm taxes resulted from levies on new values not before in existence, thus relieving the burden upon existing farms. This view is borne out by a comparison of the trend in farm values and farm assessments. The average value per acre of farm land in these districts rose from $49.60 in 1910 to $64.90 in 1920 and to $68.60 in 1925. As against the 30.8% increase of average

[1] M. Slade Kendrick, "An Index Number of Farm Taxes in New York, and Its Relation to Various Other Economic Factors," Cornell University, Agricultural Experiment Station, Bulletin 457, 1926.

farm values between 1910 and 1920, assessed values increased only 24.7%; between 1920 and 1926, some of this lag in assessed values was caught up, but barely enough to maintain a constant ratio between the two. There is no indication of any entry of new valuations into the assessment. The increase of farm taxes collected during these years was largely an increase in the farm tax burden.

Actually, then, during the years 1910 to 1926, there was a steady increase of the tax rates on New York farm properties. In the thirty-four townships covered, by far the most rapid increase was in the state tax, but since this tax represents a very small proportion of the total of farm taxes, the burden of its increase was not so great as that of other taxes whose rate of increase was slower but which bulked larger in the farmers' total tax bill. Town taxes, for example, constituted 45% of the total farm tax burden of these forty-three townships in 1924, and town taxes increased 159% between 1910 and 1924. County taxes, constituting 22.3% of the farm tax burden, increased 192%.

The Trend of the Farm Tax Burden

The best and most convenient measure of the farmer's tax burden is the ratio of the taxes he pays to his net income. Unfortunately there are no general statistics of farm income for New York. Under the circumstances the best substitute is an index of farm prices. Net farm income is determined, of course, not only by the price received for farm products, but by the crop yield and the expenses of production. While an index of farm prices cannot be used as a *measure* of net farm income, it is a valuable *indication* of the long-term trend of this item. Such an index is presented in Table 25.

Farm prices in New York varied within a narrow margin from 1910 to 1915. After 1915, they rose rapidly, and in 1920 they were more than double the average for the period 1910 through 1914. In 1921, in New York State, as elsewhere throughout the country, farm prices fell and thereafter continued to decline, until in 1924 they were over 40% below their 1920 level. They increased in 1925 and again in 1926.

Until 1920, farm taxes lagged behind farm prices, but since 1920 they have been far ahead, indicating a change from a decreasing tax burden to a sharply increasing one. The suddenness of the shift of circumstances made the situation especially difficult for the farmers, but the disproportion between farm taxes and farm income (as indicated by farm prices) has continued down to the present.

Farm Taxes and the New York Tax System

No exact comparison between the tax burden of New York farmers and that of other economic groups in the state is possible. An indication that the farmers' tax burden is disproportionately heavy, however, is found in Tables 29 and 30 of this study.[1] In Table 29 a comparison is made of the tax burdens in 1920 (exclusive of the income tax) on individuals working for themselves. On the basis of this calculation, the taxes of farmers represented a greater burden when compared with their net income than those of any other group except manufacturers of food products and beverages, and owners of privately operated public utilities. The average tax burden for those working for themselves was 2.2%, while farmers paid 6.7% of their net income in taxes. In Table 30, a similar comparison is made of the tax burdens in 1922 (exclusive of the income tax) on partnerships. This year was a depression year for farmers, so that their relative tax burden might be expected to be much higher than in 1920. However, once again, it is only the successful farm partnerships paying an income tax that appear in the calculation, so that from this point of view this comparison also understates the farmers' relative tax burden. Even so, in 1922, farm partnerships paid 10.6% of their net income in taxes (exclusive of income taxes) whereas the average tax burden on all partnerships was 2.6%.

Two qualifications must be made to the calculations of Tables 29 and 30 as they apply to the relative farm tax income. In view of the nature of the occupation, some of the "true" farm income, the full value of crops grown and consumed on the farm, for example, is not reported as taxable

[1] See pp. 126 and 128 of this volume.

income. This reduces the apparent farm income and hence increases the apparent farm tax burden. Moreover, the personal income tax that other producers pay and which the farmer does not pay, increases the total tax burden of the former. Allowing for these two qualifications, however, there is ample indication of an excessive tax burden on the farmers of the state.

The only New York tax that bears heavily upon farmers is the general property tax. The personal income tax paid by farmers is almost negligible; in 1920, the peak year of farm prosperity, New York farmers reported a net taxable income of $9.9 millions out of $341.9 millions of taxable net income for all independent producers in the state; with salaries and incomes from partnerships taken into consideration, the disproportion would have been still greater. Their properties are usually small and they pay only the lowest rates of the inheritance tax. They pay a higher proportion of the motor vehicle license charges, but even this is a small item beside the general property tax.

All available evidence indicates that the farmers of New York are considerably overtaxed as compared with other economic groups in the state. Direct relief could be afforded them in two ways. The first would be to limit local expenditures. It is doubtful whether the maximum economies that could be achieved in local expenditures, however, would be sufficient to afford full tax relief to the farmers. Further relief could be given to the farmer by shifting additional functions from the local governments to the state government, thus relieving local pressure on the general property tax, by shifting a portion of the local tax burden from the property tax to other taxes, by a further expansion of the system of state aid or by expanding the system of dividing state-collected revenues between the state and local governments. This would involve transferring a portion of the farmers' present tax burden to other classes in the state. Should the present fiscal situation negative such immediate relief, future changes in New York's tax system should at least be so designed as not to increase the present discriminatory tax burden on the farmers of the state.

The Relative Tax Burden on New York Manufacturing and Mercantile Corporations

The states differ markedly in the revenue demands they make upon individuals and upon business enterprises in order to cover the expenditures of their state and local governments. Moreover, they also differ in the way they distribute their tax burdens between individuals and business enterprises. Some, like New York, derive a large part of their state revenues from a series of corporation taxes. Others still base their state and local tax systems almost exclusively on taxes, like the general property tax, which apply only incidentally to business enterprise.

Unfortunately there are no data available to permit a direct state by state comparison of relative tax burdens on all business activity, whatever its form. The scope of the statistical material limits the comparison to relative corporation tax burdens. However, corporate organization dominates industrial and business activity in New York and in the eight other industrial states—Massachusetts, Connecticut, New Jersey, Pennsylvania, Ohio, Illinois, Michigan and Wisconsin—which are primarily compared in this section.

Calculation Based on Federal Tax Data

For federal corporation income tax purposes, the corporations of the country make full annual returns covering their items of income and their details of expenditure. Among the separate items of expenditure reported are the state and local taxes paid by each corporation in the course of the year, for the amount of these taxes is allowed as a deduction in determining net taxable income. On the basis of this information, state and local taxes paid by corporations in the years 1922 and 1924 and the ratio of such taxes to the net income of the corporations grouped by the states from which they report are shown in Table 26.

This table is heavily weighted in such a manner as to reduce New York's apparent corporation tax burden. The corporations are assigned to the states where their head offices are located and from which they report for the federal

Table 26: State and Local Tax Burden on Corporations, by States and Geographic Divisions, 1922 and 1924

(Source: United States Bureau of Internal Revenue)

States and Geographic Divisions	1922			1924			Average, 1922 and 1924		
	Net Profit (Thousands)	State and Local Taxes (Thousands)	Ratio (Per Cent)	Net Profit (Thousands)	State and Local Taxes (Thousands)	Ratio (Per Cent)	Net Profit (Thousands)	State and Local Taxes (Thousands)	Ratio (Per Cent)
United States	$7,464,319	$1,439,160	19.3	$8,419,614	$1,586,536	18.8	$7,941,967	$1,512,848	19.0
New England	619,600	126,043	20.3	530,765	139,957	26.4	575,183	133,000	23.1
Maine	48,075	10,419	21.7	38,355	9,522	24.8	43,215	9,971	23.1
New Hampshire	11,505	3,030	26.3	8,643	2,318	26.8	10,074	2,674	26.5
Vermont	8,419	1,832	21.8	8,261	1,949	23.6	8,340	1,891	22.7
Massachusetts	381,771	75,838	19.9	332,480	91,581	27.5	357,126	83,710	23.4
Rhode Island	51,329	8,359	16.3	25,296	9,681	38.3	38,313	9,020	23.5
Connecticut	118,501	26,565	22.4	117,730	24,906	21.2	118,116	25,736	21.8
Middle Atlantic	3,204,045	569,915	17.8	3,806,615	632,600	16.6	3,505,330	601,258	17.2
New York	2,085,470	399,295	19.1	2,596,489	434,889	16.7	2,340,980	417,092	17.8
New Jersey	280,656	39,476	14.1	315,347	43,707	13.9	298,002	41,592	14.0
Pennsylvania	837,919	131,144	15.7	894,779	154,004	17.2	866,349	142,574	16.5
East North Central	1,796,684	316,060	17.6	2,002,386	347,102	17.3	1,899,535	331,581	17.5
Ohio	405,418	86,163	21.3	436,856	86,185	19.7	421,137	86,174	20.5
Indiana	110,989	20,374	18.4	104,247	21,950	21.1	107,618	21,162	19.7
Illinois	690,331	123,373	17.9	776,737	136,173	17.5	733,534	129,773	17.7
Michigan	464,151	58,054	12.5	541,009	71,422	13.2	502,580	64,738	12.9
Wisconsin	125,795	28,096	22.3	143,537	31,372	21.9	134,666	29,734	22.1
West North Central	560,331	131,428	23.5	551,294	126,160	22.9	555,813	128,794	23.2
Minnesota	134,082	43,959	32.8	136,736	38,002	27.8	135,409	40,980	30.3
Iowa	44,698	11,503	25.7	45,244	12,320	27.2	44,971	11,912	26.5
Missouri	214,086	42,760	20.0	238,178	43,157	18.1	226,132	42,959	19.0
North Dakota	2,876	2,032	70.7	3,671	2,035	55.4	3,274	2,034	62.1
South Dakota	3,473	2,078	59.8	3,097	1,761	56.9	3,285	1,920	58.4
Nebraska	23,750	6,861	28.9	24,132	6,470	26.8	23,941	6,666	27.8
Kansas	137,366	22,235	16.2	100,236	22,415	22.4	118,801	22,325	18.8

South Atlantic	531,011	100,234	18.9	576,842	113,837	19.7	553,927	107,036	19.3
Delaware	37,871	3,651	9.6	78,476	5,913	7.5	58,174	4,782	8.2
Maryland	76,630	20,174	26.3	100,194	21,987	21.9	88,412	21,081	23.8
District of Columbia	42,805	12,176	28.4	58,270	10,955	18.8	50,538	11,566	22.9
Virginia	81,741	18,525	22.7	80,922	19,481	24.1	81,332	19,003	23.4
West Virginia	75,130	10,630	14.1	43,527	13,251	30.4	59,329	11,941	20.1
North Carolina	111,703	11,266	10.1	95,902	14,374	15.0	103,803	12,820	12.4
South Carolina	28,829	6,791	23.6	10,993	7,176	65.3	19,911	6,984	35.1
Georgia	54,618	9,940	18.2	44,737	10,646	23.8	49,678	10,293	20.7
Florida	21,684	7,081	32.7	63,821	10,054	15.8	42,753	8,568	20.0
East South Central	170,581	30,577	17.9	152,155	30,464	20.0	161,368	30,521	18.9
Kentucky	69,998	12,449	17.8	63,372	8,459	13.3	66,685	10,454	15.7
Tennessee	56,007	8,147	14.5	45,485	10,289	22.6	50,746	9,218	18.2
Alabama	28,714	5,595	19.5	34,438	6,206	18.0	31,576	5,901	18.7
Mississippi	15,862	4,386	27.7	8,860	5,510	62.2	12,361	4,948	40.0
West South Central	101,453	51,073	50.3	225,221	58,928	26.2	163,337	55,001	33.7
Arkansas	13,905	2,939	21.1	16,067	3,423	21.3	14,986	3,181	21.2
Louisiana	26,388	14,218	53.9	52,096	15,193	29.2	39,242	14,706	37.5
Oklahoma	8,591	9,057	105.4	14,192	9,180	64.7	11,392	9,119	80.0
Texas	52,569	24,859	47.3	142,866	31,132	21.8	97,718	27,996	28.6
Mountain	76,251	28,532	37.4	111,954	32,768	29.3	94,103	30,650	32.6
Montana	5,091	3,853	75.7	5,319	3,443	64.7	5,205	3,648	70.1
Idaho	4,392	2,372	54.0	4,475	2,705	60.4	4,434	2,539	57.3
Wyoming	1,254	1,203	95.9	1,882	1,139	60.5	1,568	1,171	74.7
Colorado	50,026	11,507	23.0	69,778	14,558	20.9	59,902	13,033	21.8
New Mexico	1,571	1,278	81.3	781	1,012	129.6	1,176	1,145	97.4
Arizona	366[1]	2,565	[1]	6,232	2,698	43.3	2,933	2,632	89.7
Utah	15,079	4,989	33.1	23,922	6,415	26.8	19,501	5,702	29.2
Nevada	796[1]	765	[1]	435[1]	798	[1]	616[1]	782	[1]
Pacific	404,363	85,298	21.1	462,382	104,720	22.6	433,373	95,009	21.9
Washington	56,012	16,563	29.6	51,965	18,292	35.2	53,989	17,428	32.3
Oregon	19,929	7,732	38.8	1,904	9,064	476.1	10,917	8,398	76.9
California	328,422	61,003	18.6	408,513	77,364	18.9	368,468	69,184	18.8

[1] Deficit.

tax. Many of the largest and most successful corporations, with high net incomes and consequently low ratios of taxes to income report from New York, although they operate in and are taxed in other states. This causes New York's relative tax burden to appear lower than it really is.

According to the calculations of Table 26, however, state and local taxes took 19.1% of the net income of New York corporations in 1922 and 16.7% in 1924. The average for the two years was 17.8%. The corporations of four of the eight competing industrial states showed higher ratios of state and local taxes to net income; the ratio for Massachusetts corporations was 23.4%, that for Wisconsin corporations was 22.1%, that for Connecticut corporations was 21.8% and that for Ohio corporations was 20.5%. The corporations in the other four competing industrial states had lower tax ratios; the ratio for Michigan was 12.9%; that for New Jersey was 14.0%, that for Pennsylvania was 16.5%, that for Illinois was 17.7%. The limitations of Table 26 do not permit ranking the states by their relative corporation tax burdens; the calculations do evidence, however, that New York must be ranked with the higher taxing industrial states.

Calculation Based on Use of Hypothetical Corporation

The many qualifications that attach to the use of data from the federal corporation income tax returns for calculating relative state and local income tax burdens make it imperative that this calculation be checked by a second independent one. For this purpose a financial statement was drawn up for a hypothetical manufacturing corporation which was also an average manufacturing corporation, according to returns for federal capital stock and corporation income taxes.[1] The tax rates of each of the nine industrial states considered in this Chapter have been applied to this hypothetical domestic manufacturing corporation in Table 27 with allowance for administrative discriminations and variations as determined by the Prentice Hall Tax Service.

[1] The complete financial statement is given in Appendix C.

TABLE 27: TAX BURDEN ON A HYPOTHETICAL CORPORATION IN NEW YORK AND SELECTED STATES, 1927

TAXABLE ELEMENTS OF HYPOTHETICAL CORPORATION[1]

(a) Authorized capital stock	$500,000	(f) Machinery and equipment	$150,000
(b) Issued capital stock (par value)	400,000	(g) Inventories	175,000
(c) Issued capital stock (fair value)	500,000	(h) Credits	150,000
(d) Surplus	250,000	(i) Cash	75,000
(e) Land and buildings	200,000	(j) Net taxable income	50,000

NEW YORK

Property taxes, 2.7% on true value[2] of (e) and (f)	$9,446
Business corporation franchise tax, 4.5% on (j)	2,250
Total	$11,696
Adjusted upward in view of the heavier burden which the 1 mill capital stock tax places on corporations with low relative incomes[3]	$12,000

MASSACHUSETTS

Property taxes, 2.4% on true value[2] of (e) and (f)	$8,447
Income tax, 2½% on (j)	2,150
Corporate excess tax, ½% on (c) less (e), (f) and $50,000 of tax exempt securities	500
Total	$10,197
Adjusted upward since figure for corporate excess tax is probably an extreme minimum[3]	$10,500

CONNECTICUT

Property taxes, 1.6% on true value[2] of (e), (f) and (g)	$8,203
Income tax, 2% on (j)	1,000
Total	$9,203
Adjusted downward since inventories escape assessment to large extent[3]	$9,000

NEW JERSEY

Property taxes, 2.3% on true value[2] of (e), (f) and (g) [(i) taxable but in practice escapes]	$11,980
Franchise tax, $\frac{1}{10}$% on (b)	400
Total	$12,380
Adjusted downward because of escape of inventories[3]	$11,500

[1] The full financial statement of this hypothetical corporation is given in Appendix C.

[2] The property tax rate on true value for each state is estimated on the basis of reports on property tax rates and ratios of assessments for the important manufacturing cities of these states.

[3] Adjustments made on the basis of recommendations by the Prentice Hall Tax Service.

TABLE 27: TAX BURDEN ON A HYPOTHETICAL CORPORATION IN NEW YORK AND SELECTED STATES, 1927—*Continued*

PENNSYLVANIA	
Property taxes, 1.9% on true value[1] of (e) and (f)	$6,620
Five mill tax on capital stock	2,500
Total	$9,120
Slight downward adjustment[2]	$9,000
OHIO	
Property taxes, 1.5% on true value[1] of (e), (f), (g), (h) and (i)	$11,461
Franchise tax, ⅛% on (c)	625
Total	$12,086
Property tax well enforced; downward adjustment therefore slight[2]	$12,000
ILLINOIS	
Property taxes, 2.0% on true value[1] of (e), (f) and (g) [(h) and (i) taxable, but in practice escape]	$10,687
Franchise tax, $\frac{1}{20}$% on (b)	200
Total	$10,887
Adjusted downward because of escape of inventories[2]	$10,000
MICHIGAN	
Property taxes, 2.9% on true value[1] of (e), (f) and (g) [(i) taxable but in practice escapes]	$15,204
Franchise tax, ¼% on (b) and (d)	1,625
Total	$16,829
Adjusted downward because of escape of inventories[2]	$15,500
WISCONSIN	
Property taxes, 2.4% on true value[1] of (e), (f) and (g)	$12,357
Income tax, graduated rate on (j)	3,320
Total	$15,677
Adjusted downward because of escape of inventories, and because of graduation of income tax[2]	$13,000

As in the case of Table 26, the imperfections of the data on which Table 27 is based do not permit any ranking of the

[1] The property tax rate on true value for each state is estimated on the basis of reports on property tax rates and ratios of assessments for the important manufacturing cities of these states.

[2] Adjustments made on the basis of recommendations by the Prentice Hall Tax Service.

bases of corporation tax burdens.[1] Table 27 agrees with Table 26, however, in placing New York among the higher taxing industrial states in so far as manufacturing corporations are concerned.

No similar comparison can be made for mercantile corporations because of the impossibility of drawing up a financial account for a mercantile corporation that would be at all representative of a "normal" concern. In general, the capital assets of mercantile corporations show a lower proportion of land, buildings, machinery and equipment than manufacturing corporations and a higher proportion of inventory and credits. To the extent that property taxation dominates the system of corporation taxation in a state, therefore, a mercantile corporation would tend to fare better than a manufacturing corporation with a corresponding financial composition, because of the greater ease with which inventories and credits evade assessment than land, buildings, machinery and equipment. A mercantile corporation would therefore fare relatively better in New Jersey, Pennsylvania, Ohio and Illinois than in the other five industrial states where income, capital stock and corporate excess taxes,

[1] Table 26 shows Michigan to have the lightest corporation tax burden as measured by net income of the nine states compared. Table 27 shows that Michigan places the heaviest burden on an average manufacturing corporation. This apparent discrepancy is explained by the different bases of the two tables. In the first place, Table 26, covering all corporations, includes public service corporations. The tax burden on public service corporations measured by net income is considerably heavier than that on manufacturing and trading corporations. (See National Industrial Conference Board, "Cost of Government in the United States, 1925–1926," p. 119). Whereas high-taxed public service corporations accounted for 24.9% of New York's corporation activity (calculated on a net income basis), 26.7% of Massachusetts, and 21.3% of Connecticut, such high-taxed corporations represented only 2.2% of the total of corporate activity in Michigan. This relative absence of highly taxed public service corporations from the Michigan group necessarily reduces the relative Michigan tax burden in Table 26, as compared with Table 27, where all the states are on an equality in this respect.

In the second place, during the period covered by Table 26, Michigan corporations had an exceptionally high ratio of net income to capital values. For 1924, the ratio of the net income of Michigan corporations to their tangible assets was 12.4%. New Jersey corporations, the second highest group in this respect, had a ratio of 8%. Massachusetts corporations, the lowest in this respect of the nine states compared, had a ratio of 3.4%. The explanation of the high ratio shown by Michigan corporations during this period is the great prosperity of the automobile industry and its subsidiary industries, centered in Michigan. Since Michigan taxes are based on capital values, a high ratio of income to capital values necessarily diminishes their apparent burden when measured on a net income basis. This distortion does not occur in Table 27 where the identical corporation is used as a basis of comparison for the nine states compared.

which do not give a mercantile corporation an advantage over a manufacturing corporation, are important in the corporation tax system. In Pennsylvania, however, the advantage of a mercantile corporation, as compared with a manufacturing concern, with respect to the property tax is offset by a special mercantile license tax of ½ mill on wholesale sales and one mill on retail sales.

Finally, it should be noted that whereas New York's tax system makes no discrimination between domestic and foreign corporations, the tax systems of several of the other states do. In the case of the Massachusetts corporate excess tax, apportionment occurs in the case of foreign corporations doing business within and without the state, but only for certain types of intangible personalty in the case of domestic corporations. The New Jersey franchise tax applies only to domestic corporations. The Pennsylvania capital stock tax on mercantile corporations favors foreign corporations as compared with domestic corporations. The method of allocation in both the Ohio and the Michigan capital stock taxes also favors foreign corporations. In all these states, there would be a relatively lighter tax burden on foreign corporations doing a part of their business in the state in comparison with New York.

Allowing for all qualifications that must be made upon the calculations in Tables 26 and 27 and in the supplementary estimates on the taxation of mercantile corporations and on differences between the taxation of domestic and foreign corporations, New York must be judged to be among the more heavily taxing industrial states.

The Effects of Differences in Corporation Tax Burdens

It is evident that the tax systems of the nine industrial states under consideration bear unequally upon corporate business enterprise. New York must be counted among the heavier taxing states. It should not be overlooked that the competition of the corporations of these states for interstate markets aggravates the initial differences in their relative tax burdens.

It is natural that every business enterprise should endeavor

to shift as large a proportion of its taxes as it can to the consumers of its products through including them in the prices for these products. The character of state and local taxes on business enterprise makes it possible to shift them to some extent in so far as intrastate competition only is concerned. In the competition for interstate markets, however, the corporations of high taxing states find themselves in competition with the corporations of low taxing states. The corporations of the latter states pay a low tax in proportion to the selling prices of their products than do the corporations of the first group of states. If the corporations of the high taxing states were to include all their taxes in their selling prices, other things being equal, they would have to charge higher prices for their commodities and they would find themselves undersold by their lower-taxed rivals. The consequence is that they can include in their prices a tax element no larger than the tax of their lowest taxed rivals; they must bear the excess of their tax themselves as a reduction of their profits. In this way, it is possible for the exigencies of interstate marketing to magnify considerably an original difference in business tax burdens.

While such discriminating differences in corporation tax burdens between competing industrial states may not be the determining factor in influencing the location of new industries or in causing a shift of established industries, they are frequently an important factor in such development. New York at present imposes a heavier tax burden on its corporations than do many of the competing industrial states. The existence of this discrimination in tax burdens should be a deterrent against further increasing it. Future tax legislation should, if possible, avoid adding additional tax burdens to the present cost of New York corporate business enterprises.

Relative Tax Burdens by Types of New York Industry

Federal, state and local taxes paid by New York corporations averaged 28% of their net profits during the period

TABLE 28: TAX BURDEN ON NEW YORK CORPORA-
(Source: United States

New York Corporations Classified by Activities	1922			1923		
	Net Profit (Thousands)	Federal State and Local Taxes (Thousands)	Ratio (Per Cent)	Net Profit (Thousands)	Federal State and Local Taxes (Thousands	Ratio (Per Cent)
Agriculture	$6,612[1]	$798	[1]	$3,685	$942	25.6
Mining and quarrying	14,842[1]	21,371	[1]	1,562	25,102	1,607.0
Manufacturing						
Food products	110,233	25,952	23.5	106,380	29,234	27.5
Textile products	102,101	22,913	22.4	117,706	27,175	23.1
Leather products	15,950	3,418	21.4	8,838	4,442	50.3
Rubber products	12,919	3,738	28.9	4,413	4,662	105.6
Lumber products	7,769	2,350	30.2	11,219	2,681	23.9
Paper products	11,543	6,230	54.0	27,821	5,857	21.1
Printing	44,261	8,448	19.1	44,393	9,691	21.8
Chemicals	245,880	52,730	21.4	254,826	44,172	17.3
Stone, clay and glass	14,665	2,999	20.5	24,904	4,631	18.6
Metal products	143,349	64,185	44.8	381,651	100,816	26.4
Others	139,343	27,790	19.9	157,680	27,766	17.6
Total manufacturing	$848,013	$220,753	26.0	$1,139,831	$261,127	22.9
Construction	$12,229	$5,281	43.2	$14,732	$4,941	33.5
Transportation and public utilities	550,558	181,329	32.9	766,420	231,134	30.2
Trade	190,241	49,869	26.2	238,361	55,557	23.3
Public service, etc.	47,092	18,710	39.7	59,788	22,072	36.9
Finance	436,367	117,204	26.9	394,362	119,696	30.4
Combinations	22,452	3,632	16.2	8,196	2,212	27.0
Inactive	25[1]	1	[1]	51[1]	..	..
Grand total	$2,085,473	$618,948	29.7	$2,626,886	$722,783	27.5

[1] Net loss.
[2] Less than $500.
[3] Differs from total in Table 26 because of revised classification by United States

1922 through 1924. In Table 28 this calculation of the ratio of taxes to profits is shown for separate industries.[1]

Total Corporation Tax Burden by Types of Industry

The ratio of taxes to net profits is furthest from the general average in the case of agricultural and mining corporations. The former showed net losses in 1922 and 1924 that far outweighed the small profits they earned in 1923. During these years they were paying heavy state and local and some federal taxes that further augmented their deficits. In the case of

[1] The same qualifications must be made of this calculation as in Table 26; see pp. 113–114 of this volume. In particular the tax burden on manufacturing and mercantile corporations is shown lower than it actually is.

TIONS, CLASSIFIED BY ACTIVITIES, 1922, 1923 AND 1924
Bureau of Internal Revenue)

1924			Average, 1922 to 1924			Burden of State and Local Corporation Taxes 1924		Ratio (Per Cent) of State and Local to Total Corporation Taxes: 1924
Net Profit (Thousands)	Federal State and Local Taxes (Thousands)	Ratio (PerCent)	Net Profit (Thousands)	Federal State and Local Taxes (Thousands)	Ratio (PerCent)	State and Local Taxes	Ratio (PerCent)	
$2,464[1]	$749	[1]	$1,797[1]	$830	[1]	$530	[1]	70.8
19,474	38,106	195.7	2,065	28,193	1,365.3	30,034	154.2	78.8
142,140	29,285	20.6	119,584	28,157	23.5	11,738	8.3	40.1
49,244	19,765	40.1	89,684	23,284	26.0	10,285	20.9	52.0
6,636	3,624	54.6	10,475	3,828	36.5	2,181	32.9	60.2
6,340	5,228	82.5	7,891	4,543	57.6	3,819	60.2	73.0
8,373	2,848	34.0	9,120	2,626	28.8	1,574	18.8	55.3
23,950	7,445	31.1	21,105	6,511	30.9	4,893	20.4	65.7
52,288	9,981	19.1	46,981	9,373	20.0	4,175	8.0	41.8
288,837	48,003	16.6	263,181	48,302	18.4	22,741	7.9	47.4
24,536	4,371	17.8	21,368	4,000	18.7	1,876	7.6	42.9
394,242	105,102	26.7	306,413	90,035	29.4	60,457	15.3	57.5
52,320	11,100	21.2	116,448	22,218	19.1	4,719	9.0	42.5
$1,048,906	$246,752	23.5	$1,012,250	$242,877	24.0	$128,458	12.2	52.1
$16,505	$5,144	31.2	$14,489	$5,122	35.4	$2,510	15.2	48.8
704,347	190,005	27.0	673,774	200,823	29.8	131,393	18.7	69.2
224,222	55,993	25.0	217,608	53,806	24.7	24,994	11.1	44.6
81,097	24,033	29.6	62,659	21,605	34.5	14,902	18.4	62.0
485,637	138,739	28.6	438,789	125,213	28.5	101,164	20.8	72.9
7,445	1,532	20.6	12,698	2,459	19.4	905	12.2	59.1
1	..	..	25[1]	[2]	[1]	[2]	..	..
$2,585,170[3]	$701,053	27.1	$2,432,510	$680,928	28.0	$434,890	16.8	62.0

Bureau of Internal Revenue.

mining corporations the disproportion resulted more from peculiarities in their method of reporting income and profits,[1] than from any circumstances of the industry itself or of the taxes upon it.

Manufacturing corporations are shown as paying 24% of their net profits in taxes; this was the average for the group. Chemical companies and stone, clay and glass products

[1] Mining corporations are allowed to deduct depletion of their ore resources from their income in reporting taxable income. This brings the figure for their taxable income, and hence for their net profits, far below the figure of their true income or profits.

companies paid the lowest proportions of their net profits in taxes—18.4% and 18.7% respectively. On the other hand, textile corporations paid 36.5% of their net profits in taxes, and the proportion for leather goods corporations was 57.6%. Trading corporations as a group are shown as having a fairly low average tax burden, 24.7% for the three-year period. Construction companies had the high average of 35.4%, and that for public service corporations was 34.5%.

State and Local Corporation Tax Burden by Types of Industry

The only year for which the burden of the state and local taxes could be calculated for each industry was 1924. A single year does not provide an adequate base for general observations, but by comparison of the state and local tax burden in 1924 with the total tax burden for that year, some of the general effects of the New York tax system may be noted.

The state and local taxes paid by New York corporations in 1924 were 62% of their total taxes. The proportion differed from industry to industry according to the place of each industry or industrial group in the state's tax system. Agricultural corporations, which are subject to heavy property taxes because of their large land holdings, had a high proportion of state and local to total taxes—70.8%. So also did financial corporations which were then subject to special heavy bank taxes; 72.9% of the total of their taxes were paid to the state and local governments.

Differences in the proportions of state and local to federal taxes for the different types of manufacturing corporations depended chiefly on the ratio of profits to capital in each industry. The major portion of the federal tax was based exclusively on net income, while property values played a large part in the state and local taxes paid. Therefore in those industries which had a high ratio of profits to capital in 1924 the federal tax was proportionately heavier, whereas in industries which had a low ratio of profits to capital the state and local taxes were proportionately heavier. This relationship is clearly seen in Table 28.

The variations in the burden of the state and local taxes when measured by net profits is much greater than the varia-

tion of total taxes. The average state and local tax burden from manufacturing corporations in 1924, for example, was 12.2%, but stone, clay and glass products corporations in that year had a state and local tax burden of 7.6%, while the burden for rubber products corporations was 60.2%.

Relative Tax Burdens on Unincorporated Business Enterprises

No exact comparison can be made between the tax burden on incorporated business enterprises and that on unincorporated enterprises because of the lack of comparative statistical data. There is ample evidence, however, that the tax burden on the first group of business enterprises is much heavier than the tax burden on unincorporated enterprises.[1]

Fragmentary statistical material collected by the State Tax Commission indicates that the relative tax burdens on the various groups of unincorporated business enterprises parallel those on the incorporated concerns. The tax burdens (exclusive of the income tax) on individual concerns for 1920 are shown in Table 29, and those on partnerships for 1922 are shown in Table 30. Farmers (with the qualifications already noted)[2] and mining concerns bear the heaviest tax burdens, whether as individual enterprises or as partnerships. Individual manufacturing concerns paid 3.4% of their net income in taxes other than the personal income tax; in the case of partnerships the proportion of taxes to net income was 2.4%. Individual mercantile concerns had a tax ratio of 2.1% and partnerships one of 1.9%. Transportation and public utility enterprises and financial concerns, both partnerships and individual enterprises, had higher tax ratios.

That the state and local taxes (excluding the income tax) tend to bear more heavily on small private enterprises and partnerships than on large ones, when their earnings are considered, is shown in Table 31. This table indicates the proportions of the net income of partnerships earning varying net incomes, taken in 1922 by state and local taxes other than the income tax. Concerns earning $2,000 or less paid out 7.2% of their net income in taxes. With the increase of

[1] See p. 176 of this volume.

[2] See pp. 111–112 of this volume.

Table 29: Burden of New York Taxes (Except Income Taxes) on Individual Occupations and Professions, 1920

(Source: Report of the State Tax Commission, 1922, pp. 474–477, 481)

Occupation	Number of Returns Tabulated	Gross Income (Thousands)	Net Income before Deduction of Taxes (Thousands)	Taxes (Thousands)	Ratio (Per Cent) of Taxes to	
					Gross Income	Net Income before Deduction of Taxes
Farming	4,104	$36,229	$9,879	$663	1.8	6.7
Lumber and logging	12	330	54	2	.5	3.1
Fishing	64	1,140	188	4	.3	1.9
Total agricultural and related occupations	4,180	$37,699	$10,121	$669	1.8	6.6
Non-metal mining	113	2,007	723	28	1.4	4.0
Quarries	3	138	25	1	.6	3.2
Total mining	116	$2,145	$748	$29	1.4	3.9
Other agricultural, forestry or mining	398	12,193	1,678	73	.6	4.3
Manufacturing food products, beverages and tobacco	2,032	119,770	7,703	888	.7	11.5
Manufacturing textiles and textile products (except clothing)	469	42,709	2,382	80	.2	3.4
Manufacturing clothing (except rubber and leather clothing)	2,988	261,924	13,752	213	.1	1.6
Manufacturing leather and leather products	438	25,916	1,948	27	.1	1.4
Manufacturing rubber and rubber goods	61	2,624	201	1	[1]	.7
Manufacturing lumber and wood products	410	20,927	1,946	52	.3	2.7
Manufacturing paper and pulp products	145	10,866	974	26	.2	2.6
Printing and publishing	883	32,147	4,229	53	.2	1.3
Manufacturing chemicals and allied substances	159	13,370	1,380	45	.3	3.2
Manufacturing stone, clay and glass products	273	11,049	1,192	24	.2	2.0
Manufacturing metal and metal products	1,410	60,781	5,874	122	.2	2.1
All other manufacturing and combinations of manufacturing only and tributary activities	1,346	57,455	5,697	82	.1	1.4
Total manufacturing	10,614	$659,538	$47,278	$1,613	.2	3.4

Wholesalers and jobbers of food products, beverages and tobacco	968	185,795	6,060	76	[1]	1.3
Wholesalers and jobbers of textile products, including clothing	767	104,944	4,112	47	[1]	1.1
Wholesalers and jobbers of metal and metal products	197	20,216	1,104	20	.1	1.8
All other wholesalers, jobbers, etc.	1,040	159,279	8,397	222	.1	2.7
Retailers of food products, beverages and tobacco	10,742	509,064	31,745	458	.1	1.4
Retailers of textiles and textile products, including clothing	2,567	147,038	9,543	152	.1	1.6
Retailers of metals and metal products	1,185	51,556	5,159	309	.6	6.0
All other retailers, department stores, etc.	9,837	488,124	38,748	955	.2	2.5
Commission trade	592	39,962	4,452	27	.1	.6
All other traders and combinations of selling, trading, etc.	537	43,242	3,094	90	.2	2.9
Total wholesalers, jobbers, retailers, etc.	28,432	$1,749,220	$112,414	$2,356	.1	2.1
Domestic service	5,288	124,759	16,500	721	.6	4.4
Amusements	514	13,505	2,308	155	1.2	6.7
Business services	1,129	25,986	5,818	15	.1	.3
Medical profession	11,472	103,240	53,733	495	.5	.9
Legal profession	4,560	40,802	24,889	149	.4	.6
Engineering and architectural profession	893	14,620	5,389	17	.1	.3
Professional services for which degrees are conferred	1,757	47,147	6,525	105	.2	1.6
All other professional services	2,902	34,664	10,583	137	.4	1.3
All other services (manual rather than clerical)	171	4,297	519	4	.1	.7
Banks and related industries	813	54,940	7,729	232	.4	3.0
Realty holdings and developments	72	2,832	322	20	.7	6.1
Real estate, insurance and loan agencies	2,611	30,752	12,835	359	1.2	2.8
Transportation	1,894	55,850	6,625	249	.5	3.8
Public utilities, owners and proprietors of	23	595	84	8	1.3	9.3
Total transportation and public utilities	1,917	$56,445	$6,709	$256	.5	3.8
Construction	3,938	123,418	14,103	176	.1	1.3
All other lines of business, including combinations not elsewhere specified	487	9,070	1,041	53	.6	5.1
Undetermined partnerships	254	8,118	703	6	.1	.8
Total of those working for themselves	82,518	$3,155,390	$341,945	$7,641	.2	2.2

[1] Less than .05%.

TABLE 30: BURDEN OF NEW YORK TAXES (EXCEPT INCOME TAXES) ON PARTNERSHIPS, 1922

(Source: Report of the State Tax Commission, 1923, pp. 438–441)

Occupation	Number of Returns	Gross Income (Thousands)	Net Income before Deduction of Taxes (Thousands)	Taxes (Thousands)	Ratio (Per Cent) of Taxes to Gross Income	Ratio (Per Cent) of Taxes to Net Income before Deduction of Taxes
Farming	635	$11,597	$1,570	166	1.4	10.6
Lumber and logging	24	2,051	161	5	.2	2.8
Fishing	19	1,546	27	1	.1	3.3
Total agricultural and related occupations	678	$15,194	$1,758	$172	1.1	9.8
Coal mining, operating and owning	9	912	138	44	4.8	31.4
Non-metal mining	35	1,856	172	9	.5	5.3
Quarries	14	401	90	1	.3	1.2
Total mining	58	$3,169	$400	$54	1.7	13.5
Other agricultural, forestry or mining	107	3,201	513	24	.7	4.6
Manufacturing food products, beverages and tobacco	931	60,574	3,685	212	.4	5.7
Manufacturing textiles and textile products (except clothing)	762	145,609	6,223	82	.1	1.3
Manufacturing clothing (except rubber and leather clothing)	4,294	711,115	16,386	194	[2]	1.2
Manufacturing leather and leather products	353	51,678	2,780	108	.2	3.9
Manufacturing rubber and rubber goods	88	4,693	245	4	.1	1.7
Manufacturing lumber and wood products	389	28,427	2,144	58	.2	2.7
Manufacturing paper and pulp products	144	25,789	1,326	31	.1	2.3
Printing and publishing	592	32,647	4,678	90	.3	1.9
Manufacturing chemicals and allied substances	122	18,212	2,311	39	.2	1.7
Manufacturing stone, clay and glass products	246	17,596	1,437	44	.3	3.1
Manufacturing metal and metal products	1,091	96,037	4,744	192	.2	4.1
All other manufacturing and combinations of manufacturing only and tributary activities	1,740	175,994	6,312	197	.1	3.1
Total manufacturing	10,752	$1,368,371	$52,271	$1,251	.1	2.4

Wholesalers and jobbers of food products, beverages and tobacco	1,211	485,739	12,428	188	[2]	1.5
Wholesalers and jobbers of textile products including clothing	1,312	430,164	10,857	102	[2]	.9
Wholesalers and jobbers of metal and metal products	175	39,383	1,844	35	.1	1.9
All other wholesalers, jobbers, etc.	1,485	403,286	11,752	179	[2]	1.5
Retailers of food products, beverages and tobacco	3,308	173,730	9,505	152	.1	1.6
Retailers of textiles and textile products including clothing	1,627	142,700	5,262	166	.1	3.2
Retailers of metal and metal products	332	29,690	2,099	108	.4	5.2
All other retailers, department stores, etc.	4,027	267,675	15,788	496	.2	3.1
Commission trade	401	80,452	9,426	39	[2]	.4
Sale of automobiles, parts, accessories, etc.—garages	421	28,139	2,588	50	.2	1.9
Total wholesalers, jobbers, retailers, etc.	14,299	$2,080,958	$81,549	$1,515	.1	1.9
Domestic service	1,958	70,776	6,495	343	.5	5.3
Amusements	296	11,865	1,482	117	1.0	7.9
Business services	618	46,155	11,746	32	.1	.3
Medical profession	229	7,255	2,380	19	.3	.8
Legal profession	1,377	81,661	51,040	17	[2]	[2]
Engineering and architectural profession	274	15,592	4,781	22	.1	.5
Professional services for which degrees are conferred	185	10,187	903	14	.1	1.6
All other professional services	391	13,609	2,193	46	.3	2.1
All other services (manual rather than clerical)	18	380	38	1	.2	2.1
Banks and related industries	1,033	916,807	54,834	1,539	.2	2.8
Capitalists	114	980,670	7,088	481	[2]	6.8
Realty holdings and developments	42	3,420	979	29	.8	2.9
Real estate, insurance and loan agencies	1,843	36,907	12,508	1,602	4.3	12.8
All other business of financial or fiduciary character	27	37,588	501	1	[2]	.1
Transportation	1,060	222,994	3,272	192	.1	5.9
Public utilities, owners and proprietors of	19	1,584	99[1]	4	.2	[1]
Total transportation and public utilities	1,079	$224,578	$3,173	$196	.1	6.2
Construction	1,559	74,908	6,309	135	.2	2.1
All other lines of business, including combinations not elsewhere specified	485	97,176	6,261	347	.4	5.5
Undetermined partnerships	665	48,503	5,206	161	.3	3.1
Total partnerships	38,087	$6,148,922	$314,406	$8,118	.1	2.6

[1] Deficit.

[2] Less than .05%.

the net income, the proportion of the taxes paid decreased until the $500,000 mark was reached. A number of large unincorporated banks paying special bank taxes fall into

TABLE 31: BURDEN OF NEW YORK TAXES (EXCEPT INCOME TAXES) ON PARTNERSHIPS, BY INCOME CLASSES, 1922

(Source: Report of the State Tax Commission, 1923, pp. 444–5)

Income Class	Number of Returns	Gross Income (Thousands)	Net Income before Deduction of Taxes (Thousands)	Taxes (Thousands)	Ratio (Per Cent) of Taxes to	
					Gross Income	Net Income before Deduction of Taxes
$0– $2,000...	9,652	$382,887	$10,666	$767	.2	7.2
2,001– 5,000...	9,613	521,587	33,138	938	.2	2.8
5,001– 10,000...	5,873	538,007	41,969	901	.2	2.2
10,001– 50,000...	4,421	1,923,427	94,092	1,587	.1	1.7
50,001– 100,000...	643	454,439	42,054	273	.1	.7
100,001– 250,000...	397	903,847	60,728	375	[1]	.6
250,001– 500,000...	104	136,415	34,914	118	.1	.3
500,001–1,000,000...	35	82,435	24,996	1,075	1.3	4.3
1,000,001 and over....	15	114,800	25,614	969	.8	3.8
Total.............	30,753	$5,057,844	$368,171	$7,003	.1	1.9
Reporting net loss...	7,360	1,091,779	53,726[2]	1,115	.1	[2]
Grand total........	38,113	$6,149,623	$314,445	$8,118	.1	2.6

[1] Less than .05%.
[2] Deficit.

this class, and the ratios of taxes to net income for these two income classes were correspondingly out of line with the general trend.

CHAPTER VI

PROBLEMS OF THE GENERAL PROPERTY TAX

THE magnitude of New York's fiscal transactions is so impressive that it has forced taxpayers and legislators to give careful attention to questions of expenditure, taxation and borrowing. For a decade the legislature, under the guidance of its Special Joint Committee on Taxation and Retrenchment and of the State Tax Commission, has corrected and revised the state's tax laws, bringing about greater uniformity and eliminating outstanding defects. This work of reform and revision is still far from completion. Perhaps it can never be fully accomplished, for economic and social forces are constantly at work reshaping the fundamental economic framework upon which the tax system must rest. In this Chapter are analyzed and discussed those aspects of the general property tax in which friction and defective operation are still in evidence.

THE ASSESSMENT AND COLLECTION OF TAXES ON REAL PROPERTY

Students of taxation have criticized the general property tax severely, some going so far as to hold that in modern economic society it is inherently unworkable, "unsuited to the present generation . . . destitute of theoretical justification as it is defective in its practical application."[1] The issue is too broad to be argued or settled in a paragraph, but, great as the deficiencies of the general property tax may be, there is little popular sentiment in evidence for its immediate abolition and no unanimity as to possible substitutes. There can certainly be no possibility of eliminating it from the New York tax system at the present time. Legislative and popular attention should therefore be directed to particular inequalities and abuses in its application, that these may be corrected as far as is practical.

[1] Edwin R. A. Seligman, "Essays in Taxation," tenth edition, 1925, p. 19.

Underassessment and Unequal Assessment

The presumption upon which the general property tax is based is that every piece of taxable real property and personalty is entered upon the tax books and assessed at its full and true value. As a matter of practice, this ideal is never achieved. It is difficult, however, if not impossible, to obtain data as to the amount of property omitted from the assessment rolls. The very fact that a piece of property has not appeared on the assessment list checks investigation at the outset, for it has no starting point. The omission of land from assessment rolls is not an impossibility—only recently, aeroplane maps of Connecticut cities showed a surprising amount of non-listing[1]—but it is not so common as to constitute a serious problem. The great problems in the assessment of real estate are unequal assessment and underassessment.

If all property were uniformly underassessed at a given rate, no injustice would be done. If an identical rate is levied on properties assessed at a uniform proportion of their full value, by no stretch of the imagination can the resulting tax burdens be considered unequal. In fact, a strong argument has been made for the beneficial effects of consistent underassessment. City councils have a tendency to vote all the expenditures that their tax rate and debt limitations permit them. It is one of the arguments against such limitations that they relieve city councils of fiscal responsibility and encourage them to tax and borrow to the utmost of their limitations. These limitations are based on assessed values. As long as underassessment persists and is uniform, the tax and debt limitations are held down and extravagance is checked, but if the financing of a given expenditure is a life and death matter for a municipality it can be achieved by forcing up the assessment ratio and thus raising the limitation on the tax rate and borrowing power by the necessary amount.

This argument is particularly pertinent inasmuch as a number of the New York cities are finding their development severely cramped by these debt and tax rate limitations. It

[1] S. M. Fairchild, "Aerial Photographs Aid Tax Assessors," *National Municipal Review*, July, 1926.

is offset, however, by the observation that low ratios of assessment are often accompanied by, if they are not actually the reflection of, wide inequalities of assessment as between individual properties. The effort to achieve full value assessment apparently concentrates attention on those properties whose assessments have fallen furthest from the full value standard.

It is differences in the ratios of assessment between individuals in a given assessment unit, between assessment units when a county rate is levied, between counties when a state rate is levied—that constitute the tax assessment problem. County and state equalizations may place the assessment units within the county and the counties within the state somewhat upon a parity if the vagaries of the original valuation are not too great, but these processes are powerless to remove the inequalities of the original assessment between individuals. A single flat rate, whether it be state, county, town, city, village or school district, laid upon assessed values inherently unequal, necessarily results in inequalities of tax burdens upon the individuals affected.

The issue of uniform underassessment is responsible for no abuse and sets no problem of revision or reform except in so far as it may stimulate inequality of assessment ratios. The paramount issue is the inequality of assessment ratios as between individuals and as between districts and counties to the extent that it is not offset by county and state equalization.

Assessment Ratios by Types of Assessing Units

Towns and cities in New York make independent assessments for property taxation, and villages may make independent levies for their own taxes. Taken by groups, some marked differences are found in the ratios of their assessed real estate values to the full value of the property assessed, as determined by the State Tax Commission for equalization purposes. These ratios are shown by groups for the year 1925 in Table 32.

The three first class cities are seen to have had assessment ratios in 1925 exceeding 60%. New York City had the highest ratio, 92%. The assessment ratio in Buffalo was

78%. In Rochester it was 69%. The assessment ratios in the second class cities had a wider range, from 50% to 100%. Those of the third class cities ranged from 30% to over 100%. Saratoga Springs was the one city assessing its property at more than full value according to the State Tax Commission's estimate. About one-fourth of the cities assessed at between 70% and 80% of the full value of their property; the large majority of the remainder had ratios between 40% and 70%.

TABLE 32: DISTRIBUTION OF CITIES, TOWNS AND VILLAGES BY ASSESSMENT RATIOS, 1925

(Source: Report of the State Tax Commission, 1925, pp. 155 to 407)

Assessing Agencies	Total Number	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	91% to 100%	Over 100%
Cities												
First class....	3	..	..	..	..	..	..	1	1	..	1	..
Second class..	9	..	..	..	..	..	.1	3	1	2	2	..
Third class...	48	..	..	..	3	7	10	4	14	8	1	1
All cities.....	60	..	..	..	3	7	11	8	16	10	4	1
Percentage distribution	100.00	..	..	..	5.0	11.7	18.3	13.3	26.6	16.7	6.7	1.7
Villages making independent assessments[1]..	304	..	2	24	26	54	73	60	34	18	13	..
Percentage distribution	100.00	..	.7	7.9	8.5	17.8	24.0	19.7	11.2	5.9	4.3	..
Towns.........	932	1	19	12	28	96	188	283	197	81	26	1
Percentage distribution	100.00	.1	2.0	1.3	3.0	10.3	20.2	30.4	21.1	8.7	2.8	.1

[1] This number includes a duplication because of the fact that certain village boundaries cross town or county lines.

The assessment ratios of the towns and of the villages making independent assessments are considerably below those of the cities. For the ten-year period, 1915 to 1925, the average ratio of assessment for the cities, exclusive of New York City, Buffalo, and the Westchester County cities, was 63.6%.[1] With these cities added it was between 80% and 90%. The average assessment ratio for towns during this period was 49.1%[2] and that for villages making independent assessments was not much higher. The spread of

[1] Report of the State Tax Commission, 1925, p. 449.

[2] *Ibid.*, p. 450.

assessment ratios for the towns and for villages making independent assessments is much wider than that for city assessments. In the case of the towns, one was assessing at less than 10% of true value in 1925, while another was assessing in excess of true value.

There are no statistical data on the variations of assessment ratios as between individuals. Within a single assessing district cases can be found where there is evident over-assessment, and others where the assessed value is a tenth or a twentieth of the sales price. There is, however, a noticeable trend in these ratios of assessment. Small properties, in general, are assessed at a distinctly higher proportion of their true value than are large properties. This is clearly shown in Table 33 where the assessed and sales values of properties that came up for sale in New York between 1915 and 1925 are grouped according to their selling prices.

During this period, 9230 properties were sold at prices under $1,000. These properties as a whole were assessed at 71.8% of their full value. Properties valued between $1,000 and $2,000 were assessed on an average of 63.8% of their worth. As the size of the property increased, the assessment ratio tended to decrease, until the $10,000 mark was reached. In general, all properties worth $10,000 or more were assessed at about 55% of their true value. The average assessment for all properties during these years was 57.4%.

This situation is by no means peculiar to New York. It is found as an almost inevitable accompaniment of general property tax assessments. Its explanation is not far to seek. The average assessor, particularly the rural assessor, is usually well fitted by his economic station in life to judge the value of small parcels of land for farming or dwelling purposes. The heterogeneity that enters into large estates or industrial properties, however, balks his comprehension. He is likely to leave out speculative value and similar elements which enter into the value of large properties more than into that of smaller ones.

The variations in assessment ratios by size of property assessed differ markedly according to the type of assessing unit. In the case of the cities of New York (except New York City, Buffalo, and the Westchester County cities, all of

which have high and fairly uniform ratios of assessment) the assessment ratios of properties valued above $1,000, taken by price groups for the period 1915–1925, varied between 55.1% and 78%;[1] the highest ratio was 41.6% above the lowest. In the case of town assessments during this period the variation in rural properties was between 33.6% and 57%,[2] and the highest ratio was 69.6% above the lowest. The variation in the case of village properties was from 27.8% to 65.3%,[3] a spread of 134.9%.

TABLE 33: DISTRIBUTION OF NEW YORK REAL ESTATE ASSESSMENT RATIOS[1] BY VALUE OF PROPERTY, 1915 TO 1925

(Source: Report of the State Tax Commission, 1925, p. 422)

Amount of Consideration	Number of Sales	Consideration	Assessed Value	Ratio
$0– $1,000	9,230	$6,966,298	$5,003,590	71.8%
1,001– 2,000	26,426	41,258,491	26,341,025	63.8
2,001– 3,000	29,546	75,372,836	45,966,062	61.0
3,001– 4,000	24,707	87,352,759	52,031,860	59.6
4,001– 5,000	19,198	87,126,820	50,874,452	58.4
5,001– 6,000	13,645	75,738,107	43,556,060	57.5
6,001– 7,000	10,464	68,254,411	39,103,789	57.3
7,001– 8,000	7,942	59,830,435	33,648,401	56.2
8,001– 9,000	5,227	44,548,745	25,093,297	56.3
9,001– 10,000	4,204	40,362,311	22,440,296	55.6
10,001– 11,000	2,430	25,588,653	14,209,364	55.5
11,001– 12,000	2,201	25,533,648	14,182,880	55.5
12,001– 13,000	1,598	20,047,308	11,036,607	55.1
13,001– 14,000	1,149	15,599,319	8,431,108	54.0
14,001– 15,000	1,322	19,370,834	10,607,337	54.8
15,001– 20,000	2,947	51,456,959	28,699,860	55.8
20,001– 25,000	1,246	28,246,830	15,670,522	55.5
25,001– 30,000	779	21,702,734	11,422,770	52.6
30,001– 40,000	787	27,641,569	15,483,554	56.0
40,001– 50,000	394	17,890,403	9,827,915	54.9
50,001– 60,000	185	10,308,213	5,822,190	56.5
60,001– 70,000	121	7,976,094	4,646,810	58.3
70,001– 80,000	86	6,512,149	3,425,100	52.6
80,001– 90,000	41	3,535,924	1,898,715	53.7
90,001–100,000	61	5,928,154	3,465,230	58.5
Over 100,000	199	34,171,561	18,624,775	54.5
Total	166,135	$908,321,565	$521,513,569	57.4%

[1] The sales are of properties in all the counties of the state except Greater New York, Erie, Westchester and Hamilton. The sales occurred in the years 1915–1925.

Differing average ratios of assessment between districts

[1] Report of the State Tax Commission, 1925, p. 449.

[2] *Ibid.*, p. 450.

[3] *Idem.*

within a county would not constitute an abuse if the differences were corrected by adequate county equalization. There is evidence, however, that in many counties the equalization process is not adequate to offset basic inequalities in the ratios of the district assessments. In many counties, political considerations rather than a study of the sales prices of parcels of land determine the equalization process.[1] To determine the equalization of special franchise values assessed by the State Tax Commission, this body has drawn up its own schedule of equalization for towns, villages and cities; and in many counties there is very slight correlation between this schedule of equalization ratios and that of the county equalization.[2]

Modification of Assessment Procedure

The inequality of assessment ratios between individuals in the basic assessment and the subsequent inequality of assessment ratios between districts arising through the failure of county equalization, establish a strong case against town assessments. The assessment process in a good many towns is essentially slip-shod and carelessly handled. The Special Joint Committee on Taxation and Retrenchment in a recent investigation found that, to a large extent, the activity of the town assessors consists of a recopying of the previous year's assessment rolls, and in some cases errors are repeated year after year without correction.[3]

The town is the traditional assessment unit in New York, it is true, but this is not a conclusive argument for its continuance. Seventeen other states[4] retain town or township assessments, but six of these are New England states, where county government exists only in a rudimentary form, and in five others[5] the town assessors are supervised by

[1] N. Y. Legislative Document, 1923, No. 55, p. 119.

[2] In Sullivan County in 1923, the coefficient of correlation between the two schedules was .387; in Steuben County it was .354.

[3] In one case the Special Joint Committee found that a piece of property sold in 1899 was assessed to both the vendor and the vendee from that date to 1921. During twenty-two years this error had been copied from assessment roll to assessment roll without further attention given to it.

[4] Connecticut, Indiana, Iowa, Kansas, Maine, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, North Carolina, North Dakota, Pennsylvania, Rhode Island, South Dakota, Vermont and Wisconsin.

[5] Indiana, Kansas, New Jersey, North Dakota and Wisconsin.

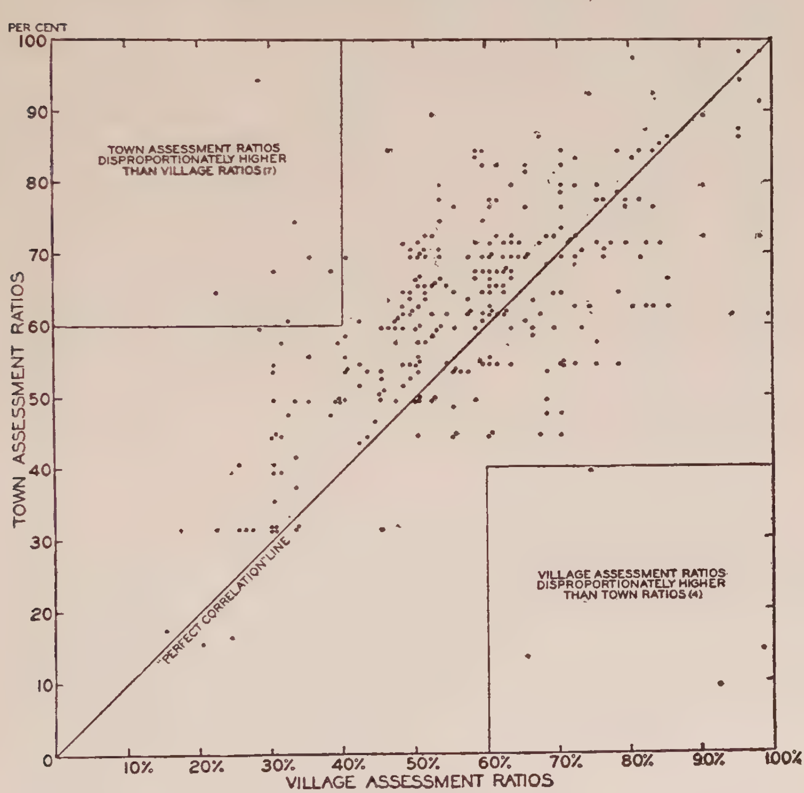
county officials. Elsewhere the assessment process is partly or wholly in the hands of county officials.

Already the New York legislature has made a partial attack on the system of town assessment. The present laws provide that New York cities make their own independent assessments. This is in harmony with the tendency, evident throughout the country, to give cities autonomy in their assessment processes. Concentration of population and property values in compact units invites independent assessment, and despite a wide variation of assessment ratios, city assessments are found to be much more effective than town or even county assessments. It would be advisable, therefore, to continue the system of city assessment parallel with any other system of assessment. In 1927, separate village assessments for village purposes were made optional for all villages. This was an attempt to remedy the deficiencies of the town assessment process by further decentralization instead of by centralization. Its wisdom is open to question. There is no available evidence to show whether these village assessments have achieved greater or less equality of assessment ratios within the village district than did the town assessments. It is clear, however, that they have had no positive effect upon the general level of village assessment ratios.

A comparison of town and village assessment ratios is given in Chart 8. Each of the 304 dots on this chart represents the assessment ratio of a village making its own separate assessment, and also the assessment ratio of the town in which it is located. In the first place, the majority of the dots bunch themselves along the "perfect correlation" line. This grouping indicates that the assessment ratios of a majority of these 304 villages differ only slightly from those of the towns in which they are located; in many cases it has been discovered that village assessors, presumably acting independently, were copying town rolls. In the second place, the bunching of dots is seen to be heavier above than below the "perfect correlation" line. This indicates that more often than not separate village assessment results in a lower assessment ratio than town assessment and in duplication of effort and expense without an offsetting tangible benefit.

A suggested solution of the assessment problem is the centralization of the process in county officials, with independent assessment for cities but not for villages. This revision would not prove a panacea for all the ills of the general property tax, but it does represent a very definite

CHART 8: CORRESPONDENCE OF NEW YORK TOWN AND INDEPENDENT VILLAGE ASSESSMENT RATIOS, 1925
(National Industrial Conference Board)



improvement over the system of town assessment. An authority on the problems of the general property tax writes:

"The county unit is the smallest in which competent assessors can be hoped for; in general, smaller units, except cities, cannot offer sufficient compensation, independence

in office, and otherwise attract and retain competent assessors. Appointment to office is probably superior to election, but the essential things are that the assessment should be a continuous process, and that the officers actually performing the assessment should be employed and retained on an effective merit system."[1]

The advantages of the county system over the town system of assessment can be summarized in three propositions. First, it is advantageous to remove the assessor's office from the influence, not necessarily wilful and pernicious, but none the less dangerous, of his immediate neighbors and electors. Second, it is advantageous to have a permanent salaried assessment staff that can develop skill and technique in its task, which is possible only when the unit is sufficiently large to make the assessment process a year-round labor. Third, it will end the absurdity of separate village and town assessments, differing in the values they place on identical properties, and involving often repetitious appeals. Against these advantages must be set the possible centralization of political manipulation with its consequent dangers of fraud and injustice. The proposal for county centralization of the assessment process is approved by the Special Joint Committee on Taxation and Retrenchment.[2]

Proposals for Immediate Assessment Revision

County assessment can be brought about only by constitutional amendment. For the interim period the Special Joint Committee on Taxation and Retrenchment makes two pertinent proposals for improving town assessment. In the first place, it suggests that the State Tax Commission provide technical assistance to the local assessors in valuing special types of property, particularly public utility property.[3] In the second place, it makes the following suggestion for improving the county equalization process:

"In counties which have no equalization commission the county clerk should be required to render a daily

[1] Jens P. Jensen, "The General Property Tax," p. 216.

[2] New York Legislative Document, 1925, No. 97, pp. 114–120.

[3] New York Legislative Document, 1922, No. 72, p. 109.

report to the clerk of the board of supervisors giving the names of the vendor and of the vendee, the description, the consideration stated, the amount of the revenue stamps, the amount of the mortgage, and any other pertinent information regarding every sale of real estate within the county recorded in the office during the day. The clerk of the board should be required to list these sales by towns, entering opposite the sum of the mortgage plus the cash consideration—actual, if available, or estimated from revenue stamps, if not—the assessed value of the parcel on the last preceding assessment roll. When the new assessment rolls are delivered to this office by the town supervisors, he should also enter in a separate column the current assessment against the property sold. He should then calculate for each town the rates of assessed value to sales value for the preceding year and the current year, and should lay the entire tabulation and the ratios based thereon before the supervisors for their guidance in formulating the county equalization table. The supervisors should not be bound by the ratios disclosed by the tabulation, but in case of varying from the ratios, should be required to state clearly the reasons for any variation in their resolution establishing the rates of equalization."[1]

Centralization of Tax Collections

It was pointed out in Chapter III[2] that towns, cities, villages and school districts have varied dates for tax collection. The individual taxpayer who has all his property within a single tax district is not greatly inconvenienced by this diversity of tax collection dates. The problem is many times magnified, however, when the taxpayer is a large corporation with properties in many counties and districts. Large business enterprises, anxious to get their taxes properly paid and cleared off their books, find themselves put to heavy expense to discover how much they must pay in taxes and when and to whom they must pay them. Discourtesy and indifference often mark the attitude of rural collectors towards non-resident taxpayers, particularly when the latter are large

[1] New York Legislative Document, 1923, No. 55, p. 127.

[2] See p. 69 of this volume.

public service corporations. Unless they wish to find themselves paying surcharges on delinquent taxes, the corporations must often incur considerable expense in order to find the proper individuals to receive their taxes.

Most states provide for a single collecting agency, the county, or, when cities are constituted as independent tax districts, for two mutually independent collecting agencies, the county and the city. If New York progresses towards a county-city centralization of assessment, it should also provide for a county-city system of tax collection. The collection of delinquent school district and village taxes has already been centered in county officials. This is a compromise expedient, however, and tends to encourage indifference on the part of the school district and village collectors, since carelessness and laxness on their part will in no way affect the tax receipts of their districts.[1] The entire collection process should be a county function.

The Special Franchise Tax

The special franchise tax, as enacted in 1899, was intended to end the escape of public service corporations from personal property taxation through the debt deduction allowance.[2] As a matter of fact, the tax burden imposed on these corporations by the special franchise tax was greater than the tax burden they would have borne had their personalty been fully taxable without deductions, but this additional burden was intended as a tax on the special privileges enjoyed by public service corporations.

Relative Importance of Special Franchise Assessments

The relative significance of the special franchise assessments to the several types of public service corporations subject to this tax in 1926 is shown in Table 34. These assessments were distributed among five groups of public utility corporations. Gas, light, heat and power companies bore 43% of the equalized special franchise assessments. The electric railroads of the state were responsible for 23.7%,

[1] New York State Bureau of Municipal Information Bulletin, No. 4, June 1, 1927.

[2] See p. 70 of this volume.

the steam railroads for 15.6%, the telephone and telegraph companies for 15%, and water supply companies for 2.7%. It should be noted, however, that the special franchises of this last group of companies represented 62.1% of their total assessment. In the case of electric railroads, the proportion was 50.3%, and in the case of gas, light, heat and power companies it was 40.3%. Steam railroads showed the lowest proportion of special franchise to total assessments, 12.4%.

TABLE 34: SPECIAL FRANCHISE ASSESSMENTS BY TYPES OF CORPORATIONS, 1926

(Source: Report of the State Tax Commission, 1926, pp. 166–168)

	Amount (in Thousands)				Percentage Distribution				Per Cent Distribution of Special Franchise Values
	Realty	Equalized Special Franchises	Personalty	Total	Realty	Equalized Special Franchises	Personalty	Total	
Steam railroads	$759,060	$107,978	$2,080	$869,118	87.34	12.42	.24	100.00	15.64
Electric railroads	161,202	163,375	352	324,929	49.61	50.28	.11	100.00	23.67
Gas, electric light, heat and power companies	437,847	296,684	2,000	736,531	59.45	40.28	.27	100.00	42.99
Water supply companies	11,416	18,771	37	30,224	37.77	62.11	.12	100.00	2.72
Telephone and telegraph companies	201,729	103,370	96	305,195	66.10	33.87	.03	100.00	14.98
Total	$1,571,254	$690,178	$4,565	$2,265,997	69.34	30.46	.20	100.00	100.00

The Abolition of the Special Franchise Tax

During the past twenty-nine years the tax system of the state has been radically revised. The personal property tax as an element of corporate taxation has practically disappeared. Although mercantile and manufacturing corporations are no longer taxed on personal property, the special franchise tax, intended as a substitute for the state personal property tax on public service corporations, is still used. As the Special Joint Committee on Taxation and Retrenchment points out, "a method which was legitimate under the old system of the general property tax is no longer defensible under the changed conditions both fiscal and economic."[1]

[1] New York Legislative Document, 1922, No. 72, p. 106.

It is generally recognized that the special franchise tax has been productive of much injustice and administrative difficulty. The evaluation of these special franchises, involving as it does an extremely intricate calculation of net profits derived from such franchises and the determination of a rate of capitalization, is largely a hit and miss matter. The Special Joint Committee on Taxation and Retrenchment has expressed itself as opposed to longer continuance of this tax.[1] The State Tax Commission also favors its repeal.[2]

The Special Franchise Tax and Local Debt and Tax Rate Limitations

The special franchise assessments, viewed by the law as assessments of realty, are an integral part of the real property assessments on which the debt and tax-rate limitations of the cities and other local governments are based. The Special Joint Committee has always been insistent that no change should be made in the special franchise tax law until a constitutional amendment has provided that the abolition of the tax will not affect the debt and tax rate limitations of the cities. It may be seriously questioned whether these limitations themselves should not be abolished outright. Without considering this issue here, however, it is worth inquiring what effect the abolition of the special franchise tax would have upon these limitations.

The assessed value of these special franchises in 1926 was $784.2 millions. As shown in Table 35, of these special franchises $630.4 millions represented realty values and only $153.8 millions were intangible values. With the special franchise tax abolished, the $630.4 millions of real property values would be assessed under the general property tax. Only $153.8 millions of assessed value would be lost, and these would narrow local borrowing capacity by $15.4 millions. New York City, the heaviest loser, would find its borrowing capacity lowered by $9.3 millions.

When the loss of the intangible elements of the special franchise assessment is compared with the total assessed value of realty in the state, as is done in Table 35, the difference is found to be insignificant. For the state as a whole,

[1] *Idem.*

[2] Report of the State Tax Commission, 1923, p. 21.

the difference would be 0.68%. For New York City, where most of the special assessments are concentrated, the difference would be 0.6%. The difference in the cases of the smaller cities would be somewhat greater than in New York City, slightly over one per cent. The narrowing of the debt limitation therefore would not be sufficiently great to warrant the delay and inconveniences of a constitutional amendment.

TABLE 35: SPECIAL FRANCHISE AND TOTAL REALTY ASSESSMENTS, 1926

(Source: Report of the State Tax Commission, 1926)

Location	Total Realty Assessment	Special Franchise Assessment	Tangible Elements	Intangible Elements	Ratio (Per Cent) of Intangible Elements to Total Realty Assessment
	Amount (in Thousands)				
New York City......	$15,456,351	$514,643	$421,206	$93,437	.60
All other cities.......	4,115,815	163,165	120,498	42,667	1.04
Towns and villages...	2,987,833	106,436	88,716	17,720	.59
Total............	$22,559,999	$784,244	$630,420	$153,824	.68

THE ASSESSMENT AND TAXATION OF PERSONALTY

The twentieth century has seen the New York personal property tax whittled away and dismembered until now it has only a fraction of its former importance. Only tangible personalty is at all taxable now; moreover, the tangible personalty of corporations taxed under Art. IX-A of the Tax Law is entirely exempt from both state and local taxation, and the tangible personalty of corporations taxable under Art. IX of the Tax Law is exempt from state taxation. In 1866, the year when the proportion of taxable personalty to the total assessment was highest, this proportion was 25.5%. From 1866 to the present, there has been an almost unbroken decrease in the proportion that personalty is of the total assessment, until it is now less than 1½%. This development is shown in Table 36.

Table 36: Personal Property Assessed for State Taxation at Five-Year Intervals, 1840 to 1926
(Source: Report of the State Tax Commission, 1926, p. 125)

Year	Total Assessment for State Taxation	Personalty Assessed for State Taxation	Ratio (Per Cent) of Personalty to Total State Assessment
1840	$639,171,000	$121,447,830	19.00
1845	602,479,016	115,988,895	19.25
1850	724,874,293	153,183,486	21.13
1855	1,401,285,279	294,012,564	20.98
1860	1,440,550,836	320,617,352	22.26
1865[1]	1,531,229,636	334,826,220	21.87
1870	2,052,537,898	452,607,732	22.05
1875	2,466,267,273	357,941,401	14.51
1880	2,681,257,606	340,921,916	12.72
1885	3,224,682,343	324,783,281	10.97
1890	3,779,393,746	382,159,067	10.11
1895	4,450,474,499	541,621,122	12.17
1900	5,765,741,474	672,715,703	11.67
1905	8,129,021,386	816,399,934	10.04
1910	10,121,501,061	482,499,193	4.77
1915	11,790,628,803	454,989,997	3.86
1920	14,850,989,607	255,263,116	1.72
1925	20,576,408,504	288,216,301	1.40
1926	22,886,085,997	326,087,449	1.42

[1] The largest proportion of personalty was reached in 1866, when the ratio of personalty to total was 25.50%.

Inequalities of Personal Property Assessment

Only private tangible personalty in excess of indebtedness is now subject to assessment and taxation under the New York property tax, but there can be no question but that a considerable proportion of this privately owned tangible personalty escapes taxation altogether. Some evasion would occur under the most perfect system of personalty taxation, but the New York tax law has to some extent facilitated evasion. For example, under the New York law, personalty is taxable only at the legal domicile of the owner. It is not an uncommon occurrence that a store is located in a different assessment unit from the owner's domicile. The stock of the store cannot be assessed at its situs, and it is only too likely to escape assessment in the district of the owner's domicile. This shortcoming of the tax law was pointed out by the Mills Committee in 1916,[1] but has not yet been remedied.

The Special Joint Committee on Taxation and Retrenchment recently inquired into variations and inequalities in

[1] Report of the Joint Legislative Committee on Taxation, 1916, p. 92.

the assessment of personalty in the various tax districts on the basis of 1925 data and made the following discoveries:

"The per capita value of tangible personal property assessed for tax purposes in the different counties of New York State varies from $0.30 to $44.10. There are 27 counties in which this value is less than $5 and 30 counties in which it is between $5 and $15. In only one case, New York City, is the value greater. In New York City it amounts to $44.10.

"Moreover, great disparity appears between counties of approximately the same size. For example, consider Cortland and Greene, two counties with approximately the same population and approximately the same real property assessment. However, $108,255 worth of personal property was assessed in Greene County and only $8,575 in Cortland, roughly one twelfth as much. Or take two adjacent counties, Lewis and Herkimer. In 1925, Herkimer had over twice as many inhabitants as Lewis and about four times as much real property. However, Lewis assessed more than twice as much personal property as Herkimer did.

"Among the cities the disparity is quite as striking. Sixteen of the 59 cities assessed no personal property at all in 1925. Seven others assessed less than a dollar per capita. On the other hand there were four with personal property in excess of $15 per capita; Canandaigua, $15.83; Oswego, $18.77; Glen Cove, $25.99; and New York City, $44.10.

"Cities of approximately the same size vary greatly in the amounts of personalty assessed. For example, Amsterdam and Auburn both have populations of approximately 35,000. Amsterdam assessed $341,000 of personal property, while Auburn did not assess any. Again, comparing Gloversville and Cohoes, two cities of 23,000 and 22,000 inhabitants respectively, we find an assessment of $6 per capita in Gloversville and nothing at all in Cohoes. The city of Poughkeepsie, with over $44,000,000 worth of real property, did not assess a dollar's worth of personal property, and the city of Rochester assessed only $310,000 or a per capita value of personal property of 98 cents.

> "The inequalities in different towns are quite as great as those found in cities. In Allegany County, for example, where the per capita assessed personal property for the entire county was $12.57 in 1925, there were eight towns that failed to report any personal property at all. There were eight, however, that assessed amounts in excess of $10 per capita.
>
> "The situation in Steuben County also reveals striking inequalities among the towns. Here, the average for the county as a whole amounted to $3.55 per capita. However, there are thirteen towns that did not assess any personal property and only six towns where the assessment exceeded $5 per capita. In no case in this county is the assessed personal property greater than $11 per capita.
>
> "Many such examples can be pointed out. No relationship whatever appears to exist between the amount of personal property assessed and the population or the real property in towns, cities or counties."[1]

In one city with a most efficient assessment system, the Committee found that the assessments of personal property were based, not on the ascertained holdings of the taxpayer, but upon the amount of federal income tax which he was reported to have paid according to the newspapers, upon his listing in the social register, or upon the outward appearance of his personal residence.[2] Incidents such as this indicate the farcical character of the tax.

The listing of all items of personalty now escaping assessment and the valuation of all personalty at its full worth would not solve the problem of the personal property tax. It might further aggravate it. Taxable tangible personalty, with the exception of merchants' stocks and the locally taxed personalty of corporations taxed under Art. IX of the Tax Law, is for the most part non-productive wealth. The burden of the high tax rates to be found in some New York cities—above 6% in Long Beach and Mechanicville for instance—would be intolerable if all personalty were to be listed and assessed at full value. It is the laxness of the

[1] New York Legislative Document, 1927, No. 86, pp. 81, 82.

[2] New York Legislative Document, 1926, No. 68, p. 127.

tax which is its safeguard against extreme abuses. Moreover, many assessors are persuaded to assess no personalty because they know that if they do assess it, the taxpayers of their district will be discriminated against in the levying of the state and county taxes through the failure of assessors in other districts to make any diligent effort to reach this class of property.

Classification

The Special Joint Committee states categorically that "the personal property tax is not a just tax."[1] It should be radically revised. Two methods suggest themselves—classification with taxation at a rate lower than that on real property, or complete abolition.

"Classification" may be defined as "the abrogation of the rule of uniformity, whether for the purpose of making possible a greater degree of administrative efficiency in the administration of the tax or to eliminate specific abuses by equating the tax rates on certain types of property more closely to their yield value or to facilitate discrimination favoring and encouraging certain economic groups or industries."[2] This abrogation of the rule of uniformity may be accomplished by levying lower rates on the classified personalty assessed at full value, by assessing the classified personalty at fractional values but levying full rates on it, and by special taxes. In view of the limited scope of the personalty taxable in New York and because of the provision for the deduction of debts from credits, the first method—levying lower rates on a full assessment—would seem to recommend itself, if classification be the reform adopted. In experience, the low rates on classified personalty are found to be productive of a greater assessment, and often of greater revenue, than when this property is subjected to the uniform rates of the general property tax.[3]

The State Tax Commission gives a qualified approval to the suggestion of classification—its preference would be for

[1] New York Legislative Document, 1927, No. 86, p. 82.

[2] National Industrial Conference Board, "The Fiscal Problem in Illinois," pp. 161–162.

[3] See *Ibid.*, Tables 33, 34 and 35, pp. 185–187.

outright abolition—and suggests the following concomitant alterations of the tax law if a system of classification should be effected:

> "(a) Repeal the exemption provisions now contained in the Civil Practice Act and in subdivision 21 of Section 4 of the Tax Law, and substitute in place thereof some fair amount to be allowed as an exemption to all taxpayers; (b) Repeal those provisions of Section 6 of the Tax Law which now allow each taxpayer the amount of his just debts as an offset against his personal property holdings; (c) Amend the statute in such a way as to eliminate from the state equalization table and from county equalization tables the aggregate amount of assessed personalty for the purpose of apportioning state and county taxes, thereby making the base for apportionment purposes the equalized value of real property only; (d) Give personal property situs in the tax district where actually located, thereby cancelling the existing rule that movables follow the person; (e) Provide that in making assessments of personal property such as merchandise and the like, taxpayers' holdings be averaged for the year."[1]

Elimination of provision for the deduction of just debts from taxable personalty, recommended by the State Tax Commission, would unquestionably work a discrimination against merchants conducting their business with borrowed capital. The actual tax burden upon such merchants, however, would not be greater than at present, unless almost the whole of their business was based on credit. The hardship worked would be small and only in isolated cases; the gain in administrative facility, through elimination of widespread evasion, would be great. This would be a clear case where a minor equity might be justifiably sacrificed to a greater administrative efficiency.

The classified tax law might set a fixed rate to apply to all personalty throughout the state or it might leave this fixing of the rate to the local districts, since the revision would make the tax exclusively a local one. The opinion of the State Tax Commission is that the tax on personalty should be

[1] Report of the State Tax Commission, 1925, pp. 21–22.

levied throughout the state, but that the local districts should have freedom in fixing the rates within specified limits. Five mills is suggested as the minimum rate and ten mills as the maximum.[1]

Such a provision would be unique among property tax laws.[2] The nearest parallel would be the situation in Kentucky where the state levies fixed low mill rates on certain types of property and the local governments levy their full local rates. The suggested New York system would be superior to that of Kentucky, in that it would permit local governments, within limits, to lower their rates on real property by exercising their power to tax personal property without feeling that the tax on the latter would be oppressive, and at the same time they would have a certain freedom in adjusting the tax burden between the two types of property.

The Abolition of the Personal Property Tax

The preference of the State Tax Commission and of the Special Joint Committee would be to abolish the tax on tangible personalty outright.[3] The one objection to this procedure would be the loss of some six to seven million dollars of revenue to the local governments. This revenue could be replaced by a very slight increase in the rates or the local share of already existing taxes, or it could be replaced by an income tax upon unincorporated business.[4] In fact, the provision for such a tax would logically carry with it the exemption of the personalty of such business enterprises from property taxation. There would be left taxable only the tangible property of corporations taxed under Art. IX of the Tax Law (subject to local taxation), which even at present is very illogical, and the tangible personalty (above the $1000 exemption of personal effects) of individuals, which evades the tax practically in its entirety.

[1] *Ibid.*, p. 23.

[2] A full tabular analysis of the classified property tax laws in operation in the U. S. is to be found in "The Fiscal Problem in Illinois," *op. cit.*, pp. 163–175.

[3] Report of the State Tax Commission, 1925, pp. 20, 21; New York Legislative Documents, 1924, No. 91, p. 107; 1925, No. 97, p. 180; 1927, No. 86, p. 16.

[4] See pp. 205–207 of this volume.

Exempt Property

In the words of the Special Joint Committee on Taxation and Retrenchment, "there is an annual assault upon the New York State Legislature to extend the list of tax exemptions and to reduce the taxes of particular groups or individuals through various devices."[1] During the three years 1924 through 1926, ninety-three bills involving the abolition of taxes against specific types of property or groups of individuals or providing for exemptions were placed before the legislature. It is estimated that had all these measures passed, they would have involved an annual revenue loss of $423.8 millions; of the twenty-six tax annullment measures that did pass, seven of the most important are estimated to have involved a total revenue loss of over $50 millions.[2] It is thus evident that tax exemption is a present and pressing issue.

The Increase of Tax-Exempt Real Property

The increase in the total of tax-exempt real property from 1905 to 1926 is shown in Table 37 and in Chart 9. In 1905, the value of such property amounted to $1,389 millions.[3] Ten years later, in 1915, it was $2,522 millions. In 1926, counting in new private dwellings exempted until 1932, it was $5,117 millions. During these years, however, the assessed value of total real property increased rapidly. From 1905 to 1917, nevertheless, as shown by the sharper slant of the exempt-property line in Chart 9, the increase of tax-exempt real property was more rapid than the increase of taxable real property. The proportion that the former was of the total assessed value of all real property increased during these years from 16% to 18.6%. If the exemption

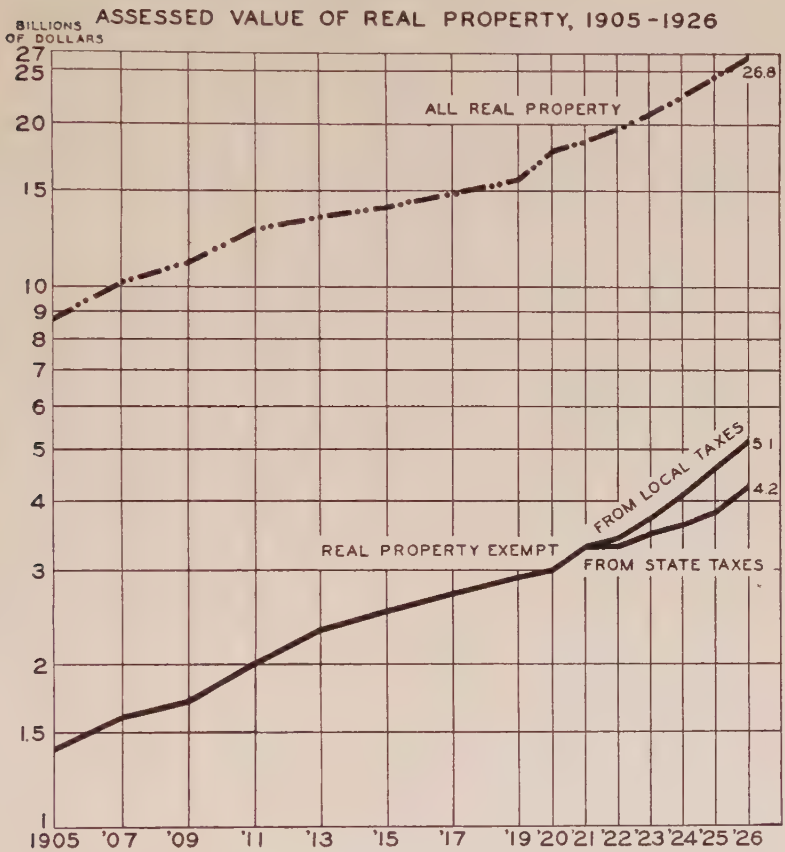
[1] New York Legislative Document, 1927, No. 86, p. 121.

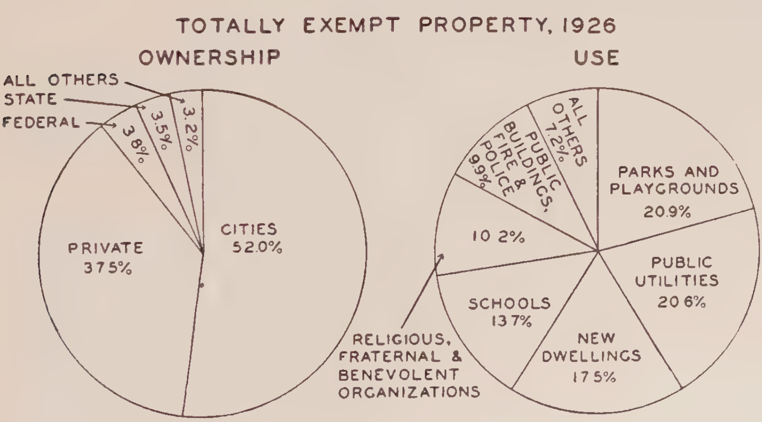
[2] *Ibid.*, pp. 123, 128.

[3] The accuracy of the assessment of tax-exempt real property is subject to some question. Although the requirements of the law in respect to the method of assessment are the same for the two classes of property, there are two reasons to question their absolute accuracy. On the one hand, as exempt property pays no tax anyway, there is not the same incentive to discover its true value as in the case with other real property. On the other hand, as no tax payments are involved, there is no reason for the owners of tax-exempt property to protest valuations in excess of the real value. In the absence of other evidence, it has been assumed in the above text that these two tendencies counterbalance each other.

CHART 9: EXEMPT REALTY IN NEW YORK STATE, 1905 TO 1926

(National Industrial Conference Board)





of new dwellings from local taxation is left out of consideration, there was a decrease in the proportion of tax-exempt property between 1917 and 1926 from 18.6% to 15.8%. With the value of the exempted new dwellings counted in, however, the proportion in 1926 was 19.1%.

TABLE 37: REAL PROPERTY EXEMPT FROM STATE AND LOCAL TAXES, 1905 TO 1926

(Source: New York State Legislative Document, 1927, No. 86, p. 37, and Reports of the State Tax Commission)

Year	Assessed Value of All Real Property (Millions)	Assessed Value of Real Property Exempt from		Ratio (Per Cent) to Total Realty Assessment of Real Property Exempt from	
		State Taxes (Millions)	Local Taxes[1] (Millions)	State Taxes	Local Taxes
1905	$8,702	$1,389		16.0	
1907	10,124	1,571		15.5	
1909	10,981	1,714		15.6	
1911	12,590	2,028		16.1	
1913	13,231	2,271		17.2	
1915	13,858	2,522		18.2	
1917	14,755	2,748		18.6	
1919	15,506	2,881		18.6	
1920	17,593	2,997		17.0	
1921	18,510	3,285		17.7	
1922	19,304	3,347	3,431	17.3	17.8
1923	20,520	3,482	3,731	17.0	18.2
1924	22,236	3,628	4,111	16.3	18.5
1925	24,116	3,828	4,633	15.9	19.2
1926	26,781	4,221	5,117	15.8	19.1

[1] New dwellings are exempt until 1932 from local taxes but not from state taxes. Such exemptions are reported from nine counties. The greater number are in New York City.

The Ownership of Tax-Exempt Real Property

By far the greater amount of tax-exempt real property is owned by federal, state, or local governments. Prior to 1924, private individuals or organizations possessed less than one-fourth of the exempted real property; the proportion is now higher—about three-eighths. This distribution of tax-exempt real property according to ownership, during the period 1917 to 1926, is shown in Table 38.

By far the largest group of owners of tax-exempt real property are the cities. The $1,812.3 millions of their exempt property in 1917 was 65.9% of the total of exempt real property. In 1926, their $2,662.1 millions represented 52% of the total. New York City overshadows all the other

Table 38: Exempt Real Estate[1] in New York Classified by Ownership, 1917 to 1926

(Source: Reports of the State Tax Commission)

Ownership of Exempt Real Estate	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
United States	$106,115	$108,958	$127,000	$162,126	$193,384	$193,735	$194,699	$193,258	$200,454	$195,099
State government	114,395	115,455	123,879	128,587	132,916	137,193	140,885	146,919	155,324	179,824
Counties	28,071	27,489	27,425	31,584	33,994	35,310	35,994	40,968	45,009	52,187
Cities	1,812,308	1,864,990	1,836,680	1,941,083	2,144,480	2,180,974	2,228,560	2,303,098	2,416,010	2,662,078
Towns	13,084	13,810	14,046	16,152	16,409	17,713	18,576	21,268	22,515	24,303
Villages	10,429	10,516	11,017	11,644	12,949	13,217	13,745	14,667	16,079	17,573
School districts	27,011	26,796	27,890	30,141	31,908	36,083	41,433	48,809	59,699	69,604
Private ownership	636,260	641,779	713,218	675,249	719,038	816,362	1,056,887	1,341,670	1,717,935	1,916,431
Total	$2,747,673	$2,809,793	$2,881,155	$2,996,566	$3,285,078	$3,430,587	$3,730,779	$4,110,657	$4,633,025	$5,117,099
Percentage Distribution										
United States	3.9	3.9	4.4	5.4	5.9	5.6	5.2	4.7	4.3	3.8
State government	4.2	4.1	4.3	4.3	4.0	4.0	3.8	3.6	3.4	3.5
Counties	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Cities	65.9	66.4	63.7	64.8	65.3	63.6	59.7	56.0	52.1	52.0
Towns	.5	.5	.5	.5	.5	.5	.5	.5	.5	.5
Villages	.4	.4	.4	.4	.4	.4	.4	.4	.3	.3
School districts	1.0	.9	1.0	1.0	1.0	1.1	1.1	1.2	1.3	1.4
Private ownership	23.1	22.8	24.7	22.5	21.9	23.8	28.3	32.6	37.1	37.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Including new dwellings exempted from local taxes until 1932.

cities of the state in its ownership of exempt real property. Of the $2,662.1 millions of city owned exempt property in 1926, $1,578.6 millions belonged to New York City.

The most noticeable change in the distribution of proportions among the classes of owners is the great increase in privately owned tax-exempt real property since 1922. The responsible factor, of course, is the exemption of new dwellings until 1932. It has had the effect of raising the total of personally owned tax-exempt real property from $816.4 millions in 1922 to $1,916.4 millions in 1926. The proportion of exempt property so owned rose from 23.8% in the former year to 37.5% in the latter.

The Use of Tax-Exempt Real Property

In Table 39, the tax-exempt real property for the years 1917 to 1926 is classified according to function or use.

The proportions of exempt property devoted to various uses remained remarkably constant during this ten-year period when the total of exempt property nearly doubled. The exemption of dwellings from local taxation was the only element effecting a marked change in the proportionate distribution of exempt property by use. In 1926, the value of such exempted dwellings was $896 millions, 17.5% of the total value of exempt property. The addition of this item caused most of the other items comprising the total of exempt property to show lower proportions in 1926 than in 1917.

Public utility property and parks and playgrounds are the two biggest classes of exempt property. Dwellings rank third in relative importance. School property and the property of religious, fraternal and benevolent associations take fourth and fifth place respectively.

It should be noted that in 1925, 74.4% of the real property exempt from state taxation was located in New York City. With exempt dwellings counted in, the proportion of exempt property in New York City was 78.9%. Of exempted park property, 93.6% was in New York City; so was 85% of the public utility property and 59.8% of the property of religious institutions.[1]

[1] See Report of the State Tax Commission, 1925, pp. 142–151.

Table 39: Exempt Real Estate in New York, Classified by Use, 1917 to 1926

(Source: Annual Reports of the State Tax Commission)

Use of Exempt Real Estate	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
Administration buildings	$147,581	$168,692	$141,063	$181,411	$192,048	$196,979	$197,714	$210,585	$213,186	$253,357
Protective and correctional	156,199	143,538	199,828	200,095	235,167	236,487	241,014	239,463	247,754	249,400
Educational	367,934	369,614	372,946	385,517	414,187	440,845	475,805	527,374	603,231	701,958
Religious, fraternal and benevolent	353,064	359,051	393,474	388,855	401,142	408,845	425,092	452,865	475,025	521,300
Parks and playgrounds	708,297	730,295	712,083	725,659	854,179	851,660	857,246	869,605	913,713	1,068,820
Charitable	48,244	48,697	28,761	33,311	36,698	37,253	36,954	39,250	42,033	45,321
Hospitals	99,721	100,577	106,368	125,764	136,082	141,680	153,934	169,379	188,436	207,414
Agriculture and conservation	1,312	1,091	1,287	1,372	1,421	1,363	1,643	1,978	2,179	2,394
Public utilities	779,348	804,280	839,495	871,961	926,526	944,075	991,058	1,014,332	1,035,033	1,056,619
New buildings	..	..	..	..	..	83,711	248,583	482,503	804,606	895,953
Miscellaneous	84,973	83,958	85,850	82,621	87,628	87,689	101,736	103,323	107,829	114,563
Total	$2,746,673	$2,809,793	$2,881,155	$2,996,566	$3,285,078	$3,430,587	$3,730,779	$4,110,657	$4,633,025	$5,117,099
Percentage Distribution										
Administration buildings	5.4	6.0	4.9	6.0	5.9	5.8	5.3	5.1	4.6	5.0
Protective and correctional	5.7	5.1	6.9	6.7	7.2	6.9	6.5	5.8	5.3	4.9
Educational	13.4	13.2	12.9	12.9	12.6	12.9	12.7	12.8	13.0	13.7
Religious, fraternal and benevolent	12.8	12.8	13.7	13.0	12.2	11.9	11.4	11.0	10.3	10.2
Parks and playgrounds	25.8	26.0	24.7	24.2	26.0	24.8	23.0	21.2	19.7	20.9
Charitable	1.8	1.7	1.0	1.1	1.1	1.1	1.0	1.0	.9	.9
Hospitals	3.6	3.6	3.7	4.2	4.1	4.1	4.1	4.1	4.1	4.1
Agriculture and conservation	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[1]
Public utilities	28.4	28.6	29.2	29.1	28.2	27.5	26.6	24.7	22.4	20.6
New buildings	..	..	..	..	..	2.4	6.7	11.8	17.4	17.5
Miscellaneous	3.1	3.0	3.0	2.8	2.7	2.6	2.7	2.5	2.3	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Less than .05%.

Exempt Property in Other States

Table 40 compares New York with seven other states—Massachusetts, Connecticut, New Jersey, Michigan, Rhode Island, Ohio and Minnesota—according to proportions of exempt property. Whether or not the value of the temporarily exempted new dwellings is included, New York is seen to have the highest proportion of exempted property to total assessment. Including the value of temporarily exempted new dwellings, the proportion in 1925 was 19.2%; excluding this temporarily exempted value, the proportion was 15.9%. In Massachusetts, which had the next highest proportion in 1925, it was 15.2%. In Ohio, in the same year the proportion was only 7.6%.

TABLE 40: COMPARATIVE TAX EXEMPTION IN CERTAIN STATES
(Sources: New York Legislative Document, 1927, No. 86, p. 165)

State	Kind of Property Exempt	Year	Total Assessment (Millions)	Exempt Assessment (Millions)	Ratio (Per Cent) of Assessed Property Exempt	Ratio (Per Cent) of Private to Exempt Property
New York	Real	1925	$24,116	$3,828[1] 4,633[2]	15.9[1] 19.2[2]	23.8[1] 37.1[2]
Massachusetts	Tangible	1925	7,820	1,188	15.2	38.2
Connecticut	Real and personal	1925	2,821	403	14.3	46.9
New Jersey	Real and personal	1925	5,355	555	10.4	39.4
Michigan	Real	1923	5,236	516	9.9	27.1
Rhode Island	Real and personal	1924	1,247	101	8.1	..
Ohio	Real	1923	8,722	659	7.6	..
Minnesota	Real	1924	2,535	145	5.2	23.4

[1] Excludes $804,606,410 of new dwellings exempt from local taxes until 1932.
[2] Includes value of exempted dwellings.

Privately owned property is not responsible for the relatively high proportion of exempt property in New York. Even including the value of the temporarily exempted new dwellings, New York has a lower proportion of privately owned exempt property to the total of exempt property than Massachusetts, Connecticut and New Jersey. In New York, the proportion in 1925 was 37.1%. In the other three states it was 38.2%, 46.9% and 39.4% respectively.

Bonus Exemptions

Recent years have seen considerable spread of the principle of "bonus exemptions"—exemptions of the property of par-

ticular industries or economic groups for the purpose of encouraging the development of these lines of activities. The two examples of this type of exemption in the New York tax system are the exemption of new dwellings and of shipping companies engaged in foreign trade. A tabulated analysis of the bonus exemptions allowed in 1927 in the United States is presented in Table 41.

It is seen that New York is the only state that provides at present for the exemption of newly constructed dwellings. This exemption was originally allowed because of the housing crisis in New York City. Similar pressure for housing exemptions could arise only in those states which contain large, rapidly growing cities. So far, no other state has experienced a housing crisis of sufficient magnitude and duration to warrant this type of bonus exemption.

The exemption of manufacturing establishments of specified types or of the stocks or products of such establishments is a more common form of bonus exemption. The intent to encourage the location and settlement of these industries is clear. Louisiana and Oklahoma allow exemption to certain types of irrigation projects. Pipelines are exempted in Louisiana, and new public utility enterprises in Mississippi.

A characteristic feature of bonus exemptions is the limitation of the time during which such exemptions can be claimed and of the period of the exemption. This attribute is in accord with the purpose of the exemption—the encouragement of particular lines of enterprise. Once the enterprise has established itself, there is no call for continued exemption.

Legislatures should be sparing in the allowance of bonus exemptions. Once the door is opened to this form of fiscal favoritism, legislatures can look forward to being swamped by special interests seeking favors for themselves. In many cases it is questionable whether the tax exemption is a determining inducement in the settlement or encouragement of the activity desired.

The Exemption Problem

There are two aspects to the exemption problem. The first is general and may be briefly stated: every exemption of privately owned property throws a corresponding extra

Table 41: Bonus Exemptions, 1927

(National Industrial Conference Board)

State	Constitutional Provisions a. Permissive b. Mandatory	Statutory Exemptions (I. By Statute; II. By Permissive Local Option; A. Land and Buildings; B. Buildings Only; C. Land Only; 1. Exempt from All Taxes; 2. Exempt from State Taxes; 3. Exempt from Local Taxes; a. Temporary; b. Permanent) Manufacturing or Mercantile Establishments, or Stocks or Products of Such	Public Utilities and Irrigation Systems	Miscellaneous
Alabama	..	Raw materials, manufactured articles in hands of producer; I, 1, a (1 year). Cotton mills, factories, ship-building plants; II, A, 3, a (5 years).	..	..
Arkansas	..	Textile mills; I, A, 1, a (10 years).	..	..
Delaware	..	Manufacturing or industrial improvement corporations, not more than 5 acres, in specific cities; I, C, 1, a (10 years).	..	..
Georgia	a; eleven specified industries as covered in statutory exemptions.	Eleven specified industries; II, B, 3, a (5 years).	..	..
Kentucky	a; manufacturing establishments, in an incorporated city or town.	Manufacturing establishments in cities; II, A, 3, a (5 years).	..	..
Louisiana	b; as covered in statutory exemption.	Manufacturing or commercial establishments along specified canal; required investment specified; I, B, 1, a (to 1936).	Combined irrigation, navigation and hydro-electric power systems (capital stock, franchises and property, and real estate of canal systems); required investment specified; I, 1, a (10 years). Property used in transportation and distribution of natural gas (wholly within state, not in municipalities, nor pipe lines built to cities or towns already supplied with natural gas) I, 1, a (10 years).	..
Maryland	..	Tools, manufacturing machinery and implements, in certain counties; I, 1, b.	..	..

Mississippi	a; manufacturing establishments and new public utility enterprises.	Specified kinds of factories; I or II, B, 1 or 3, a (5 years).	New public utility enterprises (tangible property but not products); ad valorem, I, a (5 years).	Permanent new hotels of specified size, constructed before 1924; II, 3, a (5 years).
Nevada	..	..	..	Unpatented mines and mining claims; I, C, 1, b.
New Hampshire	..	Ships and vessels and construction materials; II, 1, a (10 years). New industries; II, B, 3, a (5 years plus 5 years renewal). Casting industries; II, B, 3, a (1927 and 1928).	..	Registered breed animals; I, 1, b.
New York	..	..	..	Newly constructed dwellings; II, B, 3, a (to 1932). Vessels in foreign commerce and corporations owning them; I,1,a (through 1932).
Oklahoma	a; manufacturing establishments and public utilities.	..	Corporations drawing underflow water for irrigation or domestic uses; I, B, 3, a (5 years). Corporations operating gravity underflow water plants; II, B, 3, a (5 years).	..
Rhode Island	..	Manufacturing establishments; II, A, 1, a (10 years).	Railroads in two specified towns with tracks and right of way wholly within state, and corporate earnings of specified amount; II, A, 1, b.	..
South Carolina	a; manufacturing establishments.	Manufacturing establishments in specified counties, with specified amount of capital; I, A, 3, a (5 years).	..	..
Vermont	..	Manufacturing establishments, machinery in unoccupied buildings, and capital and personal property (if investment exceeds $1,000); II, A, 1, a (10 years).	..	Quarries and mines; II, A, 1, a (10 years). Hotels; II, A, 1, a (5 years).

tax burden on the rest of the community. However, the $1,916.4 millions of privately owned tax-exempt real property in New York in 1926 was less than 7% of the total assessment of realty in that year, and half of the value of this exempted property was a temporary exemption and represented property a large part of which might not have been created had not the exemption existed. The additional burden placed on the owners of taxable property is therefore very slight.

The second aspect of the exemption problem is more serious and involves publicly as well as privately owned exempt property. Were the exempted property distributed prorata through all the tax districts of the state, no particular district would have reason to complain of any extreme burden caused thereby. But it may often occur that a single exempted institution—a prison, a hospital, a college—may represent a very considerable proportion of the total realty values of a small community. Moreover, "at the present time a distinct tendency is observed for exempt institutions to colonize in certain tax districts of the state. Not infrequently, the result is that real property acquired by these institutions in large amounts narrows the local tax base to an extent which makes local taxes an almost unbearable burden."[1]

The State Tax Commission and the Special Joint Committee on Taxation and Retrenchment have both given considerable attention to the problem of tax exemption. They arrive at diametrically opposed conclusions. According to the Special Joint Committee, "the general situation with respect to tax-exempt real property is anything but alarming."[2] Against the apparent harm of exemption, the Committee finds that many localities benefit immeasurably from the presence of the exempted institutions, in some cases owing their entire existence to them.

The State Tax Commission, on the other hand, views the exemption issue as a pressing problem. The Commission makes no suggestions for limiting further exemption, but would relieve the individual districts affected by setting a

[1] Report of the State Tax Commission, 1925, p. 13.
[2] New York Legislative Document, 1927, No. 86, p. 79.

limitation on the amount of exempt property which may locate in any single district, and also by consolidating tax districts so that the burden of exemption will be spread over a larger area.[1] Either of these proposals is to be recommended as relieving the pressure upon harassed districts; the relief afforded by the second would be the more immediate, though it would involve other serious questions of jurisdiction.

There are many who feel that any solution of this problem should go to the root of the issue. Private and group interests are forever pressing the legislature to enlarge the scope of the tax exemptions, but the question is raised: Is the public served by such exemptions? The Westchester County Chamber of Commerce, for example, in a published report openly attacks the policy of exempting educational, charitable and religious institutions. It concedes that these organizations may be performing a public service, but it holds that the assistance of the State should be made in the form of bonuses or contributions, instead of by exemptions. It questions the justice of penalizing the local district even though the people of the state as a whole, or a part of the state, is benefited by the institution.[2]

Exempt property owned by government bodies, as well as privately owned exempt property, may prove burdensome to the local tax district in which it is located. Connecticut and several other states have approached this problem by making public property, owned by one government agency but located in another, taxable by the district of its location. This unquestionably eliminates the problem of exemption burdens, but it raises others. Assessment of such property by local officials is a highly dangerous procedure as it opens a field of inter-community friction and hostility. Moreover, instead of settling the general problem, it tends to reverse it; instead of making public property of another agency an excessive burden to the community of its location, it may make it an excessive source of benefit.

Perhaps the most equitable solution of this problem would

[1] Report of the State Tax Commission, 1925, p. 13.

[2] Westchester County Chamber of Commerce, "Tax Exemptions on Real Estate," 1922.

be the application of the principle of classification. Property now exempt, both publicly and privately owned, with the exception of the temporarily exempt new dwellings and firms engaged in foreign ocean commerce, could be taxed at a fractional rate. The edge would thus be taken off the burden of those communities which now find their tax bases unduly narrowed; at the same time the excessive benefits which might arise in certain cases would be minimized. With county assessment as recommended above,[1] the assessment of such property might safely be left in the hands of the regular assessment officers; if local assessment were still in existence, the assessment of such property should be in the hands of the State Tax Commission, as in the case of the special franchises under the present tax law.[2]

The Taxation of Forest Lands

Extensive and wasteful foresting in New York during the three decades prior to the Civil War resulted in a critical denudation of the state forested areas during the 1870's and 1880's. Between 600,000 and 700,000 acres of forest lands were bought in by the state in the sales during these two decades.[3] These lands became a part of the state's forest preserve and were replanted.

Meanwhile, the lumber companies themselves had come to see the advantage of long-term conservation of their assets. As the weight of investment was shifted from timber forestry to paper pulp forestry, the capital investment in machinery and equipment forced a program of conservation and scientific cutting encouraged by state and federal aid in seeding and planting.[4] It is estimated that the area of privately owned timber land in the state which has reached a close approximation to a sustained yield basis is about 500,000 acres.[5]

[1] See pp. 137–141 of this volume.

[2] For other programs of exemption reform, see Seabury C. Mastick, "The Problem of Tax Exemption," *Proceedings* of the Twentieth Annual Conference of the National Tax Association, 1927.

[3] New York Legislative Document, 1924, No. 91, p. 43.

[4] Austin F. Macdonald, "Federal Aid," 1928, p. 47.

[5] New York Legislative Document, 1924, No. 91, p. 44.

New York's Forest Tax Legislation and Its Effect

During the nineteenth century, while the forest resources of the state were being squandered, the legislature was apathetic. In 1912, by which time the reforestation of the forest preserves by the state itself and private action had gone far to repair the errors of the earlier period, the legislature passed the series of forest tax laws whose general intent was to encourage the replanting of small areas by private owners by an outright 35-year exemption of growth value and partial or complete exemption of bare values during this time. These exemptions were allowed only when the planting was done under the control and supervision of the Conservation Commission.

The Special Joint Committee on Taxation and Retrenchment, in 1924 found that these 1912 laws had failed to accomplish their purpose. From 1912 to 1923, only 1,328.15 acres valued at $13,582 had been registered under these provisions.[1] Moreover, correspondence on file in the offices of the Conservation Commission indicated that in some cases assessors ignored the certificate of exemption issued by the Conservation Commission and that in others they increased the assessments on other property belonging to the owner of the exempt forest land by more than the amount of the exemption allowed. In such cases the only recourse of the owner lay in relatively expensive *certiorari* proceedings, and no case was discovered in which the owners had resorted to the courts in an attempt to enforce the exemptions under the forest tax laws.

Influenced by the report of the Special Joint Committee, the legislature in 1926 revised the forest tax law by removing the area, location and period of growth limitations and providing for the taxation of bare land value. At time of cutting, a 6% severance tax is to be applied. It is still provided that the planting is to be under the control of the Conservation Commission.

The Forest Tax Problem

There is confusion of thought on the subject of forest

[1] New York Legislative Document, 1924, No. 91, pp. 19–22.

taxation. The real problem is a dilemma[1] which can be simply stated as follows: (1) taxation of timber stands under the general property tax encourages early and rapid cutting; (2) the substitution of a system of yield or income taxation would upset local finances in the regions affected and would place an additional tax burden, temporarily at least, upon the farm population of these regions.

The present New York law arrives at a happy compromise, at least in theory. Timber growth is exempted from annual property taxes and subjected to a yield tax at cutting; thus there is no incentive for premature cutting on the ground of taxation. The value of the bare land, however, is subjected to the general property tax, assuring local governments of continued revenue from this source.

However, in the past, local assessors have refused to allow the exemptions granted by the law, and the taxpayer has had no practical redress. The new law is silent on this point. Moreover, the prospect of subjecting their timber holdings to control by the Conservation Commission has proved in the past a powerful deterrent to prospective forest planters; the new law continues this provision. The one hope in the new law is that with extensive holdings large companies, heretofore outside the operation of the law, may now take advantage of the exemption provision.

Tax Rate Limitations

As indicated in Chapter III of this study,[2] a number of New York cities have definite limitations on the rates of the taxes they can levy, either through constitutional or charter provisions. Although such limitations of tax rates are to be found in most states, they are open to serious criticism for introducing an unfortunate element of inflexibility and rigidity into local finances.

Methods of Local Tax Limitation

There are three basic types of tax limit legislation.[3] The first and commonest type is that which fixes the maximum

[1] See National Industrial Conference Board, "The Tax Problem in Wisconsin," 1924, Ch. VII.

[2] See pp. 58–59 of this volume.

[3] *Proceedings* of the Seventeenth National Tax Association Conference, 1924, p. 156.

rate of levy for all or for specific purposes. Such regulations are found in about forty states. The second type limits the amount of taxation according to the levies of the previous year. Such restrictions exist in about a dozen states. The third type of provision fixes a maximum per capita limit on the volume of taxation. This type is but little used, except in the state of Minnesota.

The first of these three types of local tax limitation is the best, since in addition to the allowance for general growth of wealth or population which all three methods make, the *tax rate* limitation introduces an additional element of flexibility. The actual limitation on the amount of *tax revenue* that can be collected depends on the rates assessed to true value as well as upon the rate. In an emergency, cities or other local taxing divisions can always force up their assessment ratios and so increase tax collections despite a *rate* limitation. New York's method of limitation is of this type.

Disadvantages of Local Tax Rate Limitation

The purpose of such limitations is to check municipal wastefulness and extravagance by restricting the amount of funds available. Experience has shown that only too often it is the expenditures vitally necessary to the cities' growth and development that are restricted, while extravagance continues until checked by independent internal pressure. Quite often, when the total of a municipality's tax levies are restricted by a rate limitation, it persuades the legislature to except specific levies from the limitation, thus negativing the essential purposes of the limitation.

Where debt limitations do not accompany tax rate limitation, there is a strong temptation to attempt improper financing. Expenditures properly chargable to current revenues are covered by bond issues or by incurring floating indebtedness. This was Ohio's experience with its tax rate limitation law.[1] The debt limitations on the New York cities have saved them from this misfortune, but at the expense, in several specific cases, of their proper development.

[1] See *Proceedings* of Seventeenth Annual Conference of the National Tax Association, 1924, p. 159.

Central Control of Local Finances

A possible solution of the problem of central control of local finances has been indicated in earlier sections of this study.[1] If effective control over local finances were placed in the hands of an efficient and responsible central commission, the necessity for rigid tax rate limitation would disappear. A flexible and intelligent *control* would thus be substituted for a blind and rigid *limitation*.

[1] See pp. 39–42 of this study.

CHAPTER VII

OTHER TAX PROBLEMS

THE general property tax yields three-quarters of New York's state and local tax revenue. No other single tax or related group of taxes produces as much as ten per cent of the New York tax revenue. Inconsiderable as their revenue yield may appear beside that of the general property tax, some of these other taxes, however, present intricate economic and administrative problems.

The Auxiliary Property Taxes

The auxiliary property tax group now comprises only two taxes—the mortgage recording tax and the stock transfer tax. These are two of the smoothest working taxes in the New York tax system. The one possibility of alteration would be to increase the rate of the stock transfer tax to obtain a greater revenue from it. The only indirect economic effect of such an increase would be to check speculative purchase and sale of stock shares. However, so ingrained have the present rates become in the public consciousness that any changes should be undertaken only after the most serious consideration. A smooth-working and popular tax is too great a fiscal asset to be lightly risked. In an emergency, it is true, an additional revenue could always be obtained from the stock transfer tax.

The System of Corporation Taxes

The group of corporation taxes, with the exception of those on public service corporations, has been the subject of more intensive study and more careful revision than any other part of New York's tax system. Therefore it is not surprising that these taxes are carefully integrated in administrative detail. Their general effects will be considered in this section.

Table 42: Burden of New York Corporation Franchise Tax, by Industries, 1922

(Source: Report of the State Tax Commission, 1924, pp. 414–423, 480–483)

Industrial Groups	Total Gross Profit (Thousands)	Total Net Profit (Thousands)	Net Profit Earned in New York (Thousands)	Tax (Thousands)	Ratio (Per Cent) of Tax to		
					Total Gross Profit	Total Net Profit	New York' Net Profit
Tax Under Tax Law, Art. 9-A							
Farming	$4,733	$1,010	$602	$32.3	.68	3.20	5.4
Lumber and logging	428	104	63	1.8	.42	1.73	2.9
Fishing	380	927[1]	855[1]	3.5	.92	[1]	[1]
Coal mining, operating and owning	7,926	7,295	[2]	3.0	.04	.04	[2]
Metal mining	5,438	3,763[1]	730[1]	6.1	.11	[1]	[1]
Non-metal mining	9,414	2,193[1]	[2]	51.5	.55	[1]	[2]
Quarries	5,021	1,388	570	53.1	1.06	3.83	9.3
Other agricultural, forestry or mining	7,407	1,555	756	44.4	.60	2.86	5.9
Manufacturing food products, beverages and tobacco	210,583	57,627	17,000	1,470.3	.70	2.55	8.6
Manufacturing textiles and textile products (except clothing)	175,169	67,615	24,612	1,765.6	1.01	2.61	7.2
Manufacturing clothing (except rubber and leather clothing)	176,454	28,599	19,390	1,074.1	.61	3.76	5.5
Manufacturing leather and leather goods	40,087	7,104	2,856	177.7	.44	2.50	6.2
Manufacturing rubber and rubber goods	10,204	1,565	997	69.4	.68	4.43	7.0
Manufacturing lumber and wood products	33,485	8,429	1,838	362.1	1.08	4.30	19.7
Manufacturing paper and pulp products	62,146	12,440	6,780	389.6	.63	3.13	5.7
Printing and publishing	116,759	22,629	20,343	1,077.2	.92	4.76	5.3
Manufacturing chemicals and allied substances	166,497	34,075	12,301	938.4	.56	2.75	7.6
Manufacturing stone, clay and glass products	59,828	19,865	8,582	346.8	.58	1.75	4.0
Manufacturing metal and metal products	312,174	108,455	21,257	1,615.1	.52	1.49	7.6
All other manufacturing and combinations of manufacturing only and tributary activities	211,389	44,559	23,393	1,654.3	.78	3.71	7.1
Manufacturing of automobiles, auto parts and accessories and tires	20,321	1,841	1,176	157.7	.78	8.57	13.4
Wholesalers and jobbers of food products, beverages and tobacco	108,603	16,256	10,957	575.7	.53	3.54	5.3
Wholesalers and jobbers of textile products, including clothing	82,175	15,001	9,451	630.0	.77	4.20	6.7

Wholesalers and jobbers of metal and metal products	42,337	4,297	1,079	157.2	.37	3.66	14.6
All other wholesalers, jobbers, etc.	230,922	33,073	13,692	1,637.0	.71	4.95	12.0
Retailers of food products, beverages and tobacco	16,941	1,379	1,280	73.8	.44	5.35	5.8
Retailers of textiles and textile products, including clothing	65,263	6,950	5,963	351.4	.54	5.06	5.9
Retailers of metal and metal products	50,235	3,124	900	49.2	.10	1.57	5.5
All other retailers, department stores, etc.	280,888	54,712	38,517	1,402.9	.50	2.56	3.6
Commission trade	19,453	1,912	1,784	134.3	.69	7.02	7.5
Sale of automobiles, parts, accessories, etc.—garages	49,639	3,333	3,060	275.9	.56	8.28	9.0
Domestic service	91,722	5,834	5,577	435.3	.47	7.46	7.8
Amusements	29,094	2,771	2,494	286.1	.98	10.32	11.5
Business services	70,802	16,057	8,928	416.9	.59	2.60	4.7
Medical profession	3,064	347	341	24.8	.81	7.15	7.3
Legal profession	142	33	33	1.6	1.13	4.85	4.8
Engineering and architectural profession	3,469	95[1]	76[1]	27.8	.80	[1]	[1]
Professional services for which degrees are conferred	10,120	591	566	62.7	.62	10.61	11.1
All other professional services	5,765	185	167	35.6	.62	19.24	21.3
All other services (manual rather than clerical)	549	43[1]	[2]	1.7	.31	[2]	[2]
Banks and related industries	66,764	28,558	21,447	801.2	1.20	2.81	3.7
Capitalists	168	20[1]	6[1]	2.9	1.73	[1]	[1]
Realty holdings and developments	3,536	1,488	1,115	79.6	2.25	5.35	7.1
Real estate, insurance and loan agencies	28,780	8,035	6,966	430.5	1.50	5.36	6.2
All other business of financial or fiduciary character	6,064	1,424	947	115.6	1.91	8.12	12.2
Transportation	38,845	10,368	4,500	225.6	.58	2.18	5.0
Construction	71,870	12,372	1,670	614.0	.85	4.96	36.8
All other lines of business including combinations not elsewhere specified	53,319	5,235	2,686	427.3	.80	8.16	15.9
Undetermined	1,597	411	203	6.2	.39	1.51	3.1
Tax Under Tax Law, Art. 9, Sec. 182							
Real estate	..	$60,122	$41,135	$1,965	..	3.27	4.78
Holding	..	5,543	4,036	34	..	.61	.84
Transportation (various)	..	67,334	25,567	678	..	1.01	2.65
Transmission	..	45,090	19,474	446	..	.99	2.29

[1] Deficit.
[2] Not calculated because of ambiguous data.

The Burden of the Mercantile and Manufacturing Corporation Tax by Industries

Although the provisions of the mercantile and manufacturing corporation tax apply alike to all industries, the alternative rate provisions—4½% on net income, or one mill on the capital stock, or a minimum tax of $10—impose an unequal tax burden on various industrial groups according to their relative prosperity. This inequality of tax burden is indicated in Table 42.[1] When the tax is related to total gross profits and to total net profits, an additional element of variation is introduced, because under the New York corporation franchise tax neither domestic nor foreign corporations are taxed on business done outside the state, and the different industries vary considerably in the proportions of their business done within and without the state.

The $10 minimum of the corporation franchise tax necessarily makes it bear more heavily on corporations with less than $10,000 capital and with less than $222.22 annual net profit. The one mill capital stock tax alternatively applied when the net profits are less than $2\frac{2}{9}\%$ of the capital stock, however, does not necessarily operate in this regressive fashion, since large as well as small corporations may have losses or low ratios of profit to capital. Table 43[2] illustrates the effects of the alternative one mill and $10 taxes. Mercantile and manufacturing corporations earning less than $2000 net profits during 1922 paid 15.9% of their net profits under the corporation franchise tax. The proportion for the larger and more prosperous corporations was from 4½% to 8%.

[1] The figures for "Total Gross Profit" and "Total Net Profit" in Table 42, as given in the 1924 report of the State Tax Commission, are accepted as accurate. Owing to imperfections of the data and the method of calculation, the margin of error in the figures for "Net Profit Earned in New York," and hence in the percentage ratios based on these figures, is probably very high. In some cases the error was clearly of such magnitude as to invalidate the calculation, and these cases have been noted in the table. In general, these figures and the ratios dependent on them can only be indicative of the fact of variations in tax burdens without determining the actual extent of these burdens or of their variations.

[2] The column "Net Profits Earned in New York" and the tax ratio column dependent upon it are subject to the same qualifications as the corresponding columns in Table 42.

Table 43: Burden of New York Corporation Franchise Tax, by Income Classes, 1922

(Source: Report of the State Tax Commission, 1924, pp. 424–429, 482–487)

Income Class	Total Gross Profit (Thousands)	Total Net Profit (Thousands)	Net Profit Earned in New York (Thousands)	Tax (Thousands)	Ratio (Per Cent) of Tax to Total Gross Profit	Ratio (Per Cent) of Tax to Total Net Profit	Ratio (Per Cent) of Tax to New York's Net Profit
Tax Under Tax Law, Art. 9-A							
$0– $2,000	$194,376	$11,771	$6,097	$971	.50	8.25	15.93
2,001– 5,000	157,020	15,078	12,786	693	.44	4.60	5.42
5,001– 10,000	131,138	18,096	16,178	770	.59	4.26	4.76
10,001– 50,000	480,895	96,129	76,615	3,655	.76	3.80	4.77
50,001– 100,000	239,530	66,663	45,131	2,114	.88	3.17	4.68
100,001– 250,000	314,942	118,991	43,194	3,164	1.00	2.66	7.33
250,001– 500,000	243,928	111,720	40,443	2,062	.85	1.85	5.10
500,001–1,000,000	282,674	140,116	28,724	2,294	.81	1.64	7.99
1,000,001–5,000,000	390,015	185,852	56,313	2,935	.75	1.58	5.21
5,000,001 and over	228,554	119,518	13,745	813	.36	.68	5.91
Net loss or no income	404,898	246,469[1]	116,333[1]	1,105	.27	[1]	[1]
Tax Under Tax Law, Art. 9, Sec. 182							
$0– $2,000	..	$4,064	$1,485	$977	..	24.04	65.79
2,001– 5,000	..	4,851	4,795	94	..	1.94	1.96
5,001– 10,000	..	5,390	5,019	97	..	1.80	1.93
10,001– 50,000	..	18,974	17,156	317	..	1.67	1.85
50,001– 100,000	..	10,349	9,110	167	..	1.61	1.83
100,001– 250,000	..	16,785	14,432	262	..	1.56	1.82
250,001– 500,000	..	10,496	5,864	122	..	1.16	2.08
500,001–1,000,000	..	15,594	12,441	264	..	1.69	2.12
1,000,001–5,000,000	..	28,517	14,595	165	..	.58	1.13
5,000,001 and over	..	89,784	18,774	398	..	.44	2.12
Net loss or no income	..	26,712[1]	21,423[1]	260	..	[1]	[1]

[1] Deficit.

The Income Tax on Financial Corporations

As was indicated in Chapter III,[1] the moneyed capital tax was unworkable to a high degree. It was intended only as a stopgap to meet the judicial interpretation of Art. 5219 of the Federal Code until such time as the legislature could devise a rational and coördinated system of bank taxation. It was abolished in 1926, and there were few to regret its passing. With it, however, went the 1% tax on bank shares, a 4½% income tax taking its place. This change involved a serious loss of revenue to the state.

[1] See pp. 76–77 of this volume.

Table 44 shows the ratios of the old bank share tax to the net income of different types of financial institutions for the years 1918 to 1920. During this three-year period, the amount collected through the bank share tax represented 6.8% of the net income of the national banks, 6.8% of the net income of the state banks, 7.3% of the net income of trust companies, 3.1% of the net income of investment companies, and 5.8% of the net income of savings banks. There were wide variations of tax burden within each class, but these proportions represent the average of the classes. It is evident, then, that the change to a 4½% income tax represents a considerable sacrifice of revenue. This is evidenced by the figures for tax collections, the ad valorem tax on the shares of state and national banking institutions yielding $13.9 millions of revenue in 1926, while the collections under the new income tax on financial institutions for 1927 are estimated by the State Tax Commission at $7.5 millions.

TABLE 44: BURDEN OF BANK SHARE TAX ON FINANCIAL INSTITUTIONS, 1918 TO 1920

(Source: New York Legislative Document, 1922, No. 72, pp. 83–85)

Year	Ratio (Per Cent) of Tax to Net Income of				
	National Banks	State Banks	Trust Companies	Investment Companies	Savings Banks
1918	7.0	8.2	8.4	5.0	8.1
1919	6.3	5.9	7.6	3.0	7.0
1920	6.7	6.2	6.5	2.7	3.3
Average	6.8	6.8	7.3	3.1	5.8

Relative Tax Burdens on Mercantile and Manufacturing Corporations and on Financial Corporations

Under the present law, national banks pay a flat tax of 4½% on their net income. Other financial institutions and mercantile and manufacturing corporations pay 4½% on their income, or one mill on their capital stock, or $10, whichever of the three produces the largest tax. Thus the tax on mercantile and manufacturing corporations is necessarily heavier in the aggregate than the tax on national banks, though not more so than the tax on other financial institutions. In 1922, the only year for which such data are

obtainable, the average ratio of the tax on mercantile and manufacturing corporations to corporate income segregated to New York was 6.8%.[1]

The Taxation of Insurance Companies

During the ten-year period, 1911 through 1920, ninety-one fire and marine insurance companies paid 5¾% of their segregated net income in New York taxes.[2] In general, therefore, they bear a lighter tax burden than mercantile and manufacturing corporations. Gross income taxes tend to discriminate widely within the taxed group. During this ten-year period, the taxes of three of the companies amounted to less than one per cent of their net income, while four others paid over twenty-five per cent of their net income in taxes.

There is an inexcusable lack of unity in the taxation of different types of insurance companies under the New York tax laws.[3] The reasons for this variation are largely historical, and only indifference continues the situation. There is no reason why all types of insurance companies should not be brought together under a single act.

A net income tax can not be applied to insurance companies because of wide variations that may occur in their income, particularly in the case of fire insurance companies. A combined gross-income-net-income tax, such as is suggested below[4] for public utilities, however, would apply very well to the taxation of insurance corporations. The rate scale would need to be different, however, since policy rates are not regulated by public service commissions. Moreover, these companies operate in all states; therefore, the tax in any one state can not be shifted with exactitude to the policy holders of that state. The rates on insurance companies would have to be below those on public utilities unless an intolerable burden were to be put on the former.

[1] This calculation is based on data in Report of the State Tax Commission, 1924, pp. 414–423.

[2] New York Legislative Document, 1922, No. 72, p. 91.

[3] See p. 74 of this volume.

[4] See pp. 179–182 of this volume.

The Relative Tax Burdens on Incorporated and Unincorporated Business Enterprises

There is a marked contrast between the tax burden on mercantile and manufacturing corporations and that on unincorporated companies. Both incorporated and unincorporated enterprises pay state and local property taxes on their real property, and there is no particular difference in their realty holdings to cause any difference in these tax burdens. They are both taxed from 1% to 3% on their net income through the personal income tax; but the incorporated companies have an advantage here, since all their income is not distributed as taxable dividends, whereas all the net income of unincorporated companies is taxable. These are all the taxes that unincorporated enterprises have to bear. The incorporated companies, however, have the additional series of taxes under Art. IX–A of the Tax Law, which take from 4½% up to as high as 30% of the net income of such corporations and which in 1922 imposed an average tax burden of 6.8% on net income.

Some theorists feel that such discrimination in tax burdens between incorporated and unincorporated business enterprises is both justifiable and desirable. As one writer argues, "In so far as the corporate charters grant advantages and privileges there is no reason why they should not be compensated for in the form of taxes. If the price asked be too high, there is nothing to compel new business enterprises to take on the corporate rather than the partnership form."[1]

This view is quite consistent with American tax practice of the past century. *Corporate organization*, and not *business activity*, has been the primary subject of American state taxation. It has been held that the corporate form of business organization is a privilege granted by the State for which the State can make a charge, either in a lump sum, or by an annual tax, or by both. From a legalistic point of view, there can be no question of the privilege granted, of its absoluteness, and of the State's right and power to exact a *quid pro quo*. From the economist's point of view, however, the corporate privilege does not bulk so large. Rather, both corporate and unincorporated business enterprises are seen

[1] Hunter, M. H., "The Development of Corporate Taxation in the State of New York," Urbana, 1917, p. 47.

to be operating in and deriving their profits from a favorable social and economic environment which they themselves did not create but which has made their activity and their profits possible. This favorable environment is the result of the general progress and development of the people as a whole, and the people as a whole can claim to be a silent partner in every business enterprise, incorporated or unincorporated, operating in that environment, and can claim, through the taxing power of the State, a share in the profits of these enterprises.

There is then a theoretical, an ethical, justification for the equal taxation of business enterprise, whatever its form. The privilege of incorporation may be made the basis for a slight additional charge, but a difference represented by the franchise tax on mercantile and manufacturing corporations is altogether too great. Of greater practical importance than the theoretical justification is the growing popular sentiment against the discrimination between incorporated and unincorporated business enterprises.[1] Finally, in New York at least, there are no constitutional restrictions against putting both types of business enterprise upon more or less parity as to tax burden.

If the fiscal issue facing the New York legislature were to reduce taxes, a general cutting down of the corporation taxes might be considered as a means of reducing this discrimination. But the problem imposed upon the near future is to raise *more* revenue. Therefore, parity of tax burdens upon incorporated and unincorporated business enterprises must be sought by the levy of additional taxes on the latter rather than by reducing the taxes on the former. This question is given further consideration in Chapter VIII.[2]

Taxing Corporations on a Net Income Basis

Criticism has sometimes been directed against the New York system of corporation taxes on the ground that it is based too broadly on net income. It is argued that net income fluctuates too widely in times of business boom and depression to constitute a safe and conservative foundation for a tax system.

[1] New York Legislative Document, 1922, No. 72, p. 127.

[2] See pp. 205–207 of this volume.

It should be noted that the only New York corporation tax based solely on net income is the tax on national banks. Where net income enters as a base in the taxation of other corporate organizations, it is as an alternative base. In extremely prosperous years, the 4½% income tax may be very productive. For the poorest business year, a minimum limit is set by the one mill rate on capital. A minimum revenue is thus constantly assured, with an excess which varies with the prosperity and taxable capacity of the corporations taxed.

The Taxation of Public Service Corporations

The present system of taxes on railroads, transportation, transmission, water and power companies was described in a preceding chapter.[1] In the following section, the principles and economic effects of public service corporation taxation will be considered with special application to New York's problem.

The Burden of New York's Public Service Corporation Taxes

As a group, public service corporations in New York State are taxed more heavily than mercantile and manufacturing corporations, when the tax burden is measured by net income. The average proportion of the net income of steam railroads absorbed by their taxes during the ten-year period, 1911 through 1920, was 27.3%. For electric railways it was 44.4%; for telephone and telegraph companies it was 16.2%; and for gas and electric power companies it was 23.3%.[2] Included in the taxes determining these ratios, however, were state and local property taxes, the special franchise taxes, and other minor tax charges. In the case of mercantile and manufacturing corporations, 3% to 5% would be a fair allowance for the proportion of net income absorbed by such taxes.[3] In addition, the corporation franchise tax takes on the average from 6% to 7% of the net income of these corporations. Table 28 of this study[4] indicated that in 1924,

[1] See Chapter III of this volume.

[2] New York Legislative Document, 1924, No. 91, p. 105.

[3] This ratio is estimated from the proportion of such taxes to the net income of private enterprises and partnerships engaged in similar operations in 1922: see Tables 29 and 30 of this volume.

[4] See p. 122 of this volume.

12.2% of the net income of manufacturing corporations and 11.1% of the net income of mercantile corporations (these proportions, however, are probably understatements) were taken by New York state and local taxes.

Measured by net income, then, the tax burden on public utilities in New York is heavier than that on manufacturing and mercantile corporations. But net income is a deceptive measure of tax burden, because it does not take into account the possible shifting of taxes to consumers through price changes. The shifting of taxes on New York mercantile and industrial corporations is hindered by the fact that these corporations must compete within New York with lower-taxed unincorporated concerns, and in the struggle for interstate markets they must compete with the lower-taxed corporations of other states. A considerable portion of the tax burden on the mercantile and manufacturing corporations of New York rests ultimately on the shareholders of these corporations.

The situation is different in respect to the public utilities. These corporations are not in competition with private enterprises within the state or with the corporations of other states. Their rates, however, are regulated; but the New York Public Service Commission and the Interstate Commerce Commission count taxes as cost items in determining rates. For all practical purposes, then, the taxes on public service corporations are shifted. There can, therefore, be no valid comparison on a net income basis of the tax burden on public service corporations and that on other corporations.

In planning a system of corporation taxation, there is no obligation of equality of burden as between public service corporations and other corporations. They need not be taxed at the same rate, nor need they even be taxed by the same kind of tax. They comprise two absolutely independent categories, and if fairness in the distribution of tax burdens within each group has been achieved, no more can be asked.

Methods of Taxing Public Service Corporations

New York's present system of state taxation of public service corporations is based on capital stock (par value), on

gross earnings, and on dividends. The Special Joint Committee on Taxation and Retrenchment has been particularly critical of the capital stock and dividend elements in this group of taxes. Its comments are as follows:

"Par value may agree with the real value of the capital or it may not. Generally par value is meaningless as an index of either the book value or the market value of the investment. This fact is recognized in the statute, where the tax rate is made to depend also upon the dividend rate, the relation between assets and liabilities, and the market value of the stock. This is at best a clumsy attempt to put meaning into the tax on capital stock, to correct an arbitrary method by means of arbitrary refinements. The result can scarcely be called a success from the standpoint of equitable taxation.

"The present taxes on dividends are based on no logical principle. Corporation taxes are to be regarded either as an impost upon the corporation as an entity or as a means of indirectly taxing the stockholders.[1] Most of the existing taxes embody the former idea. On the other hand, the taxes on dividends, which form part of the franchise taxes on electric, elevated and surface railroads and water, gas and electric companies, involve the principle of a tax upon the stockholders. There is no excuse for a tax on dividends, if the purpose is to tax the corporation as such. In that case such a tax should be imposed on all corporate profits whether distributed in dividends or not. On the other hand, if the purpose is to tax the stockholders upon their income from investment in utility corporations, the present taxes on dividends are a very crude device. The correct means to this end is the individual income tax. New York now has the individual income tax and there is no longer any excuse for the collection of taxes on corporations based on dividends declared or paid."[2]

Any proposal to revise the present New York taxes on public service corporations is bound with the question of the abolition of the special franchise tax. This issue has been discussed earlier in this study.[3] Were this tax abolished, the

[1] Or as an impost on the public.

[2] New York Legislative Document, 1924, No. 91, pp. 102–103.

[3] See pp. 143–144 of this volume.

rates of any new public service corporation tax could be fixed so much higher. If it were retained they would have to be that much lower. In the latter case, moreover, it might be necessary to discriminate between the various types of public service corporations in the rate of the new tax, according to the relative burdens of the special franchise tax on different types of public service enterprise. As indicated in Table 34,[1] the special franchise tax bears unevenly upon different groups of public service enterprises; since it is in practice based on the capitalization of net profits, it amounts, in effect, to double taxation of certain types of enterprises.

The most common bases of special state taxes on public service corporations are capital value (capital stock or stock plus bond value), gross earnings and net earnings. The capital value base is open to criticism because of the discrimination between individual corporations resulting from their differing ratios of income to capital value. The gross earnings' tax discriminates against the company with a low ratio of net to gross earnings. The two difficulties of net earnings as a basis are, first, that in the case of companies operating across state lines it is difficult and often expensive to segregate such net earnings for taxation purposes, and second, that tax receipts on net income basis tend to vary widely with changes in business conditions. The Special Joint Committee has made a novel but a very well-considered approach to this problem by proposing a hybrid basis combining both principles. It suggests that the tax be based on gross earnings and should vary from one per cent to three per cent according to the ratio of net to gross earnings as follows:[2]

Ratio of Net to Gross Earnings	Rate of Tax
Below 5%	1%
5% to 10%	1¼%
10% to 15%	1½%
15% to 20%	1¾%
20% to 25%	2%
25% to 30%	2¼%
30% to 35%	2½%
35% to 40%	2¾%
Over 40%	3%

[1] See page 143 of this volume.

[2] New York Legislative Document, 1924, No. 91, p. 107.

These rates are based on the assumption that the special franchise tax will be abolished. In view of the peculiar elements of incidence involved in the taxation of public service corporations—that the rates are regulated and take taxes into account—the legislature has a certain leeway in setting rates. Public service corporations have long been used, though not avowedly, as tax collecting agencies. To the extent that these enterprises in their operation cross state lines, they may even be used to exact a tribute from users in other states, and there has been no small competition among the states to take advantage of this situation, at least in railroad taxation.[1] There is a natural economic limit to such indirect taxation, however, for it is possible to force rates so high as to check or embarrass the use of the services of these corporations.

The Personal Income Tax

The New York legislature attempted no pioneer labor in its enactment of the personal income tax. Federal experience had proved the possibility of a workable tax based on the taxpayer's declaration of his own income. New York copied the details of the federal law as closely as differences in circumstances permitted. The administration of the New York tax from the beginning has been conservative and practical. The only open issues of the New York personal income tax are its rate schedule and the taxation of non-resident income.

Operation of the New York Personal Income Tax

Table 45 shows the distribution of personal income in New York for the year 1921. About 790,000 resident taxpayers in that year had incomes under $5,000, but the total of their income was more than half the entire taxable income reported. The income of the 65,000 taxpayers who received incomes between $5,000 and $10,000 amounted to about 14% of the total resident income reported. The income of the taxpayers receiving over $100,000 represented 6.2% of the total. It should be noted that 1921 was a year of business depression, and that normally the distribution of income is more favorable to the higher brackets.

[1] See National Industrial Conference Board, "The Fiscal Problem in Delaware," 1927, p. 137.

TABLE 45: BURDEN OF THE PERSONAL INCOME TAX, BY INCOME CLASSES, 1921

(Source: Report of the State Tax Commission, 1922, pp. 404–406)

Income Class	All New York Residents					New York City Residents					Non Residents				
	Number of Returns	Total Income (Thousands)	Per Cent Distribution of Total Income	Tax (Thousands)	Per Cent Distribution of Tax	Number of Returns	Total Income (Thousands)	Per Cent Distribution of Total Income	Tax (Thousands)	Per Cent Distribution of Tax	Number of Returns	Total Income (Thousands)	Per Cent Distribution of Total Income	Tax (Thousands)	Per Cent Distribution of Tax
$0– $1,000	1,395	$897	[2]	$4	[2]	828	$503	[2]	$2	[2]	38	$23	[2]	[1]	[2]
1,001– 2,000	351,621	504,087	15.3	1,105	4.4	223,941	323,076	14.3	694	3.9	23,560	33,022	12.1	$181	8.2
2,001– 3,000	281,248	693,093	21.0	1,359	5.5	182,407	449,504	20.0	914	5.1	18,638	45,663	16.8	92	4.2
3,001– 4,000	106,259	370,253	11.2	1,417	5.7	73,290	254,714	11.3	976	5.5	8,960	30,680	11.3	113	5.1
4,001– 5,000	49,501	228,992	6.9	1,172	4.7	33,772	157,149	7.0	799	4.5	4,408	19,527	7.2	98	4.4
5,001– 6,000	23,330	130,111	3.9	808	3.2	15,691	87,145	3.9	544	3.1	2,716	14,686	5.4	87	3.9
6,001– 7,000	15,943	105,523	3.2	712	2.9	10,698	70,403	3.1	476	2.7	1,846	11,830	4.4	78	3.6
7,001– 8,000	11,359	86,759	2.6	616	2.5	7,614	58,061	2.6	414	2.3	1,278	9,533	3.5	67	3.0
8,001– 9,000	7,929	69,319	2.1	512	2.1	5,242	45,798	2.0	339	1.9	833	7,035	2.6	52	2.4
9,001– 10,000	6,317	61,577	1.9	474	1.9	4,272	41,389	1.8	320	1.8	655	6,188	2.3	47	2.1
10,001– 11,000	4,829	53,259	1.6	407	1.6	3,220	35,740	1.6	269	1.5	614	6,392	2.4	51	2.3
11,001– 12,000	3,820	44,854	1.4	370	1.5	2,660	31,264	1.4	257	1.4	423	4,841	1.8	40	1.8
12,001– 13,000	2,975	38,186	1.2	335	1.3	2,049	26,218	1.2	232	1.3	423	5,239	1.9	47	2.1
13,001– 14,000	2,538	36,727	1.1	337	1.4	1,749	25,772	1.1	232	1.3	224	3,018	1.1	28	1.3
14,001– 15,000	2,155	32,491	1.0	333	1.3	1,484	22,266	1.0	230	1.3	263	3,822	1.4	38	1.7
15,001– 20,000	7,298	130,311	3.9	1,520	6.1	5,100	91,286	4.1	1,064	6.0	789	13,463	4.9	156	7.1
20,001– 25,000	4,046	93,138	2.8	1,253	5.0	2,846	65,415	2.9	881	4.9	441	9,754	3.6	130	5.9
25,001– 30,000	2,504	70,433	2.1	1,025	4.1	1,792	50,411	2.2	735	4.1	245	6,627	2.4	96	4.3
30,001– 40,000	2,944	104,913	3.2	1,618	6.5	2,069	73,625	3.3	1,140	6.4	275	9,406	3.5	150	6.8
40,001– 50,000	1,511	70,406	2.1	1,156	4.6	1,110	51,460	2.3	844	4.7	127	5,736	2.1	94	4.3
50,001– 60,000	951	54,363	1.7	942	3.8	727	41,407	1.8	721	4.0	96	5,232	1.9	93	4.2
60,001– 70,000	604	40,842	1.2	773	3.1	420	28,487	1.3	538	3.0	48	3,118	1.1	61	2.8
70,001– 80,000	410	32,987	1.0	651	2.6	308	24,213	1.1	490	2.7	41	3,049	1.1	64	2.9
80,001– 90,000	279	24,791	.8	534	2.2	216	19,172	.9	414	2.3	24	2,070	.8	46	2.1
90,001–100,000	201	19,745	.6	436	1.8	147	14,390	.6	320	1.8	21	2,020	.7	47	2.1
$100,000 and over	826	203,767	6.2	5,022	20.2	629	161,661	7.2	4,019	22.5	61	9,973	3.7	253	11.4
Total............	892,793	$3,301,824	100.0	$24,891	100.0	584,281	$2,250,529	100.0	$17,864	100.0	67,047	$271,947	100.0	$2,209	100.0

[1] Less than $500. [2] Less than .05%.

The distribution of income among the different brackets differs slightly as between residents of New York City and those of the rest of the state. The proportion of income contributed by the middle brackets is approximately the same for both groups. There is, however, a heavier concentration of income in the higher brackets in the case of residents of New York City with a correspondingly smaller proportion of the total income in the lower brackets. There is approximately the same distribution of income along the tax schedule for non-residents as for residents of New York State.

The Rate Schedule of the New York Personal Income Tax

In 1919, when New York's personal income tax was imposed, there were many who opposed it bitterly on the ground that states ought not to add to the heavy burden on income placed by the federal income tax rates then in force. The defenders of the New York tax pointed out that its rates were made very low just because of this situation. The rates of the federal tax have been reduced, but the rates of the New York tax have not been increased. New York may have to obtain a larger tax revenue in the near future in view of the expenditures to which it is committed. The question is raised: Would not an increase in the rates of the personal income tax be a justifiable means of obtaining additional revenue?

There are two possibilities of rate increase for a personal income tax with a progressive rate schedule. Either the entire schedule of rates can be increased by a given proportion, or the progression can be increased. There are two sound arguments against an increase of the progression of the rate schedule of the New York income tax. As was shown in Table 45, the bulk of the taxable personal income of the state is found in the lower, not in the higher, income brackets; therefore an increase of progression, affecting principally income in the higher income brackets, would not be productive of a significant increase in revenue. In the second place, an increase of the income tax burden on the rich would probably cause a large number of the richer residents of the state to shift their domiciles to neighboring states levying no personal income taxes. As non-residents only so much of

their income as was earned within New York would then be taxable. The concentration of large incomes in New York City and Westchester County, close to the non-income-taxing states, Connecticut and New Jersey, makes this issue a vital one. The alternative to increasing the progression of the rate schedule of the income tax would be to make a flat or proportional increase of the entire schedule. It is doubtful whether there is general support for such a step. The personal income tax is not among the most popular of New York's taxes, and heavy rates on the lower brackets would not increase its favor.

The Personal Exemption

Finally, a word should be said upon the exemption allowed under the New York personal income tax. It may be criticized for both its amount and its form.

The basic principle of the personal exemption is that it leaves untaxed the "minimum of existence" income, and thus does not impose actual physical hardship upon any taxpayer. In the federal and New York personal income taxes, however, the exemption is so high that it is far beyond any "minimum of existence" level, and for most individuals and income groups it is also above the "minimum of comfort" level. The trend of the distribution of personal income shown in Table 45 would indicate that the total of the incomes immediately below the $3500 line in the case of heads of families and below the $1500 line in the case of individuals is very large. This income, at present exempted, has taxing ability and should be reached, the more so in view of the progressive character of the rest of the state and local tax system.

The administrative cost of auditing the returns of the thousands of taxpayers just under the $3500 and $1500 levels would be very great, however, and the tax in each case would be so small as to yield a much diminished net revenue. This administrative difficulty can be overcome if the lower incomes are reached, not by an extension of the tax rates into lower brackets, but by a flat charge or filing fee paid by all income receivers at the time of filing an income tax return

or in lieu of such return when the income is small. The project of such an income tax filing fee is given full consideration in a later chapter.[1]

In form, the present New York personal income tax exemption is of the "continuing" variety—that is, it is allowed to all taxpayers, irrespective of the size of their incomes. Whether the taxpayer's income is only a dollar above his exemption allowance or whether he is a millionaire, he is allowed his $1500 or $3500 exemption. There is no sound reason for this, and it involves considerable loss of revenue. If all taxpayers immediately above the exemption limit were taxed on the full amount of their incomes, however, a marked injustice would result; the taxpayer with an income of $3525 would be left, after paying his tax, with less of a net income than the person originally receiving only $3495.

As a compromise between these two forms of exemption, the tax systems of many foreign countries provide for "disappearing" exemptions. The full amount of the exemption is allowed for incomes just equal to and slightly above the exemption amount. As the net income increases, however, the exemption allowance decreases and finally disappears. If a "dollar-for-dollar" decrease of the present New York personal exemptions were allowed, for example, the income of a single individual would be fully taxable if it exceeded $3000 and the income of a head of a family (apart from his allowances for dependents) would be fully taxable at $7000.

Supplementary Local Income Tax Rates

The suggestion has occasionally been put forward that cities or other local governments should levy income taxes of their own or at least should add supplementary rates to the state income tax, the revenue from which would go entirely to them.[2] Thus, it is argued, New York City might provide an additional one per cent to be added to the present state rates. This additional tax would be collected through state agencies but would be returned to New York City, possibly with the deduction of a slight collection charge. Such supplementary income taxes have long been common in Germany, though there they have been levied not so much

[1] See pp. 211–213 of this volume.

[2] Governor's Message, 1923.

by municipalities as by states and have been supplementary to the national income tax, but they have never been tried in the United States.

It was pointed out above[1] that, within limits, it is possible for wealthy income taxpayers to shift their residences from one state to another to escape an excessive state income tax on such part of their income as is not earned within the state. It is much easier for such a taxpayer to change the city of his residence to escape an additional income tax, the more so because many suburban communities, which are purely residential offshoots of larger cities, are themselves independent municipalities and because a local income tax for administrative reasons would have to be confined to a domicile basis. It would be the wealthier taxpayers with fortunes at stake who would thus shift their residence, and the tendency of such local income taxes would be to fall most heavily on the middle and lower income groups.

The Taxation of the Income of Non-Residents

Delaware, Massachusetts, New Hampshire and North Dakota do not tax income earned or derived within the state but received by non-residents. The other eight states which tax personal income, including New York, tax the income received by non-residents from property or business within the state. This practice raises the question of double taxation. With only eight of the forty-eight states at present taxing the income of non-residents, this issue is not so serious in the case of the income tax as it is in the case of the inheritance tax. There is evidence, however, that, now that the rates of the federal income tax have been reduced, there is a growing movement for state income taxes. As more states enact personal income tax laws, this problem of double taxation will become ever more pressing.

The states differ in their economic interests. In some there is a concentration of individuals drawing income from property and corporations located in other states. Others contain the property or corporations producing this income. If an attempt were made to bring all states to a uniform basis of income taxation, the first group could afford to give up the

[1] See p. 184 ff. of this volume.

taxation of income earned within the state but paid to non-residents, because of the preponderance of the income received by their residents. The second group of states would make a disproportionate sacrifice if they gave up the taxation of income derived within the state but going to non-residents. This divergence of economic interests stands in the way of general reciprocal agreement upon a single uniform basis.

The following principle of income taxation is suggested as a compromise upon which both groups of states could unite without unequal sacrifice: The personal income tax of each state should be divided into two taxes. The first tax would be applied to all income received by residents of the state and its rate would be progressive. The second tax would be applied to income acquired from business or property within the state and would be at a flat rate. The person living within the state, whose entire income was acquired within the state, would pay both taxes. The person living within the state and receiving all his income from outside sources would pay the first, progressive tax. A non-resident, whose income was acquired within the state, would pay the flat rate tax. The rates of the two taxes should be so adjusted that when applied to the same individual, as in the first of the three above cases, the total burden would be equivalent to that of the single income tax under the present system.

By such a compromise both groups of states would be making a certain sacrifice but no state would be called upon to make a sacrifice that would accrue solely to the other states, as it would if either domicile or situs were to be adopted as the universal basis. At the same time, the problem of double taxation would be eliminated by being made universal. Every income receiver would be liable to two taxes on his income, but no group would be unjustly discriminated against. The additional virtue of this compromise is that it can be put into effect immediately by a single state, like New York, which would not thereby put itself at a disadvantage as compared with the other states.

The New York Inheritance Tax and Estate Duty

Although New York State has taxed inheritances for over forty years, its inheritance tax policy is more than ever in a state of transition. In the first place, after forty years of reliance upon one form of death duty—the inheritance tax levied on the shares of beneficiaries—there is now considerable feeling that the whole system should be changed and a different form—the estate duty levied on the entire estate of the decedent—should be applied. In the second place, New York is in the position of basing an integral part of its inheritance tax system on a provision of the federal estate duty about whose future there is no certainty. In the third place, the New York legislature has varied in its decisions as to what it wants to do or what it should do about the taxation of non-resident decedents.

The Burden of the New York Inheritance Tax and Estate Duty

The present New York estate duty, its rate schedule fixed at 80% of the rate schedule of the federal estate duty, applies only to estates larger than $200,000 ($100,000 where there are contingent elements to the estate). Hence, data collected by the State Tax Commission upon the burden of the inheritance tax in 1920 may be taken as representative of its present burden on estates under $200,000, and for many estates above this sum, since in most cases up to $1,000,000 the original inheritance tax represents a heavier burden than the supplementary estate duty and the rates of the latter are never applied. This calculation is presented in Table 46. The average burden on all estates that came under the tax in the year 1920 was 2.7%. A few large estates over $100,000 had a marked effect in raising the average tax rate, since the average for the 15,684 estates under $100,000 was 1.4%. Practically all estates above $100,000 paid over 2% and in some cases a much higher percentage; one individual estate of a net value of $8,867,000 that became subject to the tax in 1920 paid $381,900, or 4.3%.

The estate duty which New York imposes, under the credit allowance of the federal estate duty, represents a burden of .6% on an estate of $200,000, the smallest estate

Table 46: Burden of New York Inheritance Tax (1920) and of Estate Duty (1928), by Size of Net Estate

(Source: Report of the State Tax Commission, 1923, pp. 502–507)

Size of Net Estate	Number of Returns	Total Gross Estates (Thousands)	Total Net Estates (Thousands)	Total Estates Subject to Tax (Thousands)	Inheritance Tax (Thousands)	Ratio (Per Cent) of Inheritance Tax to Total Net Estate	Ratio (Per Cent) of Estate Duty, on Estate at Minimum of Bracket
$0– $1,000	2,307	$5,249	$1,388	$173	$6	[1]	..
1,001– 2,000	1,579	4,435	2,370	780	26	1.1	..
2,001– 3,000	1,322	5,898	3,562	1,137	36	1.0	..
3,001– 4,000	1,216	7,076	4,403	1,423	45	1.0	..
4,001– 5,000	1,082	7,037	4,869	1,317	41	.8	..
5,001– 6,000	894	7,368	5,105	1,654	50	1.0	..
6,001– 7,000	734	6,401	4,835	1,576	41	.9	..
7,001– 8,000	624	6,525	4,757	1,847	44	.9	..
8,001– 9,000	542	6,236	4,691	1,831	47	1.0	..
9,001– 10,000	482	6,027	4,753	1,845	39	.8	..
10,001– 11,000	378	6,002	4,937	1,882	47	1.0	..
11,001– 12,000	286	4,201	3,364	1,554	36	1.1	..
12,001– 13,000	316	5,363	3,975	1,927	45	1.1	..
13,001– 14,000	281	4,823	3,815	1,870	44	1.2	..
14,001– 15,000	249	4,734	3,651	1,907	45	1.2	..
15,001– 16,000	218	4,364	3,492	1,806	41	1.2	..
16,001– 17,000	210	4,671	3,488	1,972	49	1.4	..
17,001– 18,000	159	3,460	2,811	1,624	36	1.3	..
18,001– 19,000	159	4,064	2,964	1,765	39	1.3	..
19,001– 20,000	157	3,880	3,101	1,874	35	1.1	..
20,001– 21,000	129	3,324	2,656	1,480	33	1.2	..
21,001– 22,000	133	3,566	2,881	1,976	45	1.6	..
22,001– 23,000	120	3,403	2,788	1,693	38	1.4	..
23,001– 24,000	94	2,826	2,235	1,348	27	1.2	..
24,001– 25,000	88	2,877	2,182	1,483	34	1.6	..
25,001– 30,000	397	13,803	11,008	7,209	147	1.3	..
30,001– 35,000	300	12,194	9,791	6,805	124	1.3	..
35,001– 40,000	240	11,077	9,113	7,012	136	1.5	..
40,001– 45,000	165	8,755	7,070	5,142	99	1.4	..
45,001– 50,000	145	9,069	7,102	5,404	121	1.7	..
50,001– 60,000	193	12,716	10,703	8,628	177	1.7	..
60,001– 70,000	164	13,430	11,238	9,181	201	1.8	..
70,001– 80,000	140	14,402	12,276	9,953	248	2.0	..
80,001– 90,000	101	10,481	8,708	7,501	155	1.8	..
90,001– 100,000	80	9,090	7,660	6,488	124	1.6	..
100,001– 200,000	379	63,265	54,485	49,239	1,190	2.2	..
200,001– 300,000	125	37,985	31,180	29,317	735	2.4	.6
300,001– 400,000	76	30,381	26,262	24,418	701	2.7	1.2
400,001– 500,000	41	23,281	18,990	17,882	542	2.9	1.8
500,001– 600,000	23	14,691	12,588	12,256	448	3.6	2.0
600,001– 700,000	14	9,914	8,948	8,742	276	3.1	2.3
700,001– 800,000	17	15,799	13,928	12,314	402	2.9	2.6
800,001– 900,000	10	9,193	8,471	8,257	277	3.3	2.9
900,001– 1,000,000	5	5,086	4,738	4,611	138	2.9	3.1
1,000,001– 1,500,000	31	41,983	36,273	35,717	1,346	3.7	3.5
1,500,001– 2,000,000	9	16,728	14,923	14,737	485	3.3	4.4
2,000,001– 3,000,000	9	24,610	21,421	21,409	788	3.7	5.1
3,000,001– 4,000,000	10	37,283	34,753	33,540	1,444	4.2	6.1
4,000,001– 5,000,000	3	16,924	12,642	12,487	510	4.0	7.1
5,000,001– 8,000,000	2	13,446	11,247	11,051	460	4.1	7.9
8,000,001–10,000,000	1	9,465	8,867	8,637	382	4.3	9.7
10,000,000–and Over	4	107,800	99,140	97,765	3,834	3.9	10.7
Total	16,443	$716,661	$602,598	$515,446	$16,459	2.7	

[1] Less than .05%.

to which it could apply. The progression is steady, until a rate of 10.7% is reached on an estate of $10,000,000. A rate of 16% applies to the excess over $10,000,000, so that to the extent that an estate exceeds this amount, the tax approaches this maximum rate.

Inheritance Taxes vs. Estate Duties

In its 1925 report, the State Tax Commission recommended the substitution of an estate tax with rates based on the entire estate for the existing inheritance tax with its rates based on the shares of the individual beneficiaries. It argued:

> " . . . The substitution of an estate tax for the inheritance tax, with administration in the hands of the tax commission, will result in increased efficiency of administration and in very substantial economies. Such a move would be directly in line with the plan for the reorganization of the state government which contemplates the abolition of unnecessary agencies and the centralization of activities in a relatively small number of state agencies."[1]

This proposed substitution of an estate tax for an inheritance tax is approved by the State Bar Association and the New York Tax Reform Association.[2]

The principle of inheritance taxation has long had to combat the "widow and orphan" argument. There is popular sentiment against the taxation of the shares of decedents' estate received by his widow and children at the same rates as the shares going to distant relatives or unrelated beneficiaries. The inheritance tax, which discriminates in its rates between beneficiaries according to their relation to the decedent, satisfies this popular sentiment. An estate duty, which ignores this discrimination, would find the sentiment an obstacle in its way.

Although the basis of the estate duty is the entire estate left by the decedent, it is not impossible to provide for relationship discrimination to relieve the tax burden on the

[1] Report of the State Tax Commission, 1925, pp. 26–27.

[2] See 37th Annual Report (1928) of the New York Tax Reform Association.

widow and children of the decedent by allowing a rebate of the tax on the part of the estate received by such beneficiaries. This has been done in the estate duties of Australia and Canada. If this principle of rebates is carried too far, however, as has been done in some of the Canadian statutes, there is a disadvantageous loss of simplicity. It should be limited to a one-third or one-half reduction of the tax on the share of the estate received by the widow and children of the decedent. Such provision relieves the estate duty of the charge that it does not take into consideration the special circumstances of widows and orphans.

The two advantages of the estate duty as against the inheritance tax are the greater simplicity of the former and its greater revenue producing ability at a corresponding rate schedule. The absence of intricate relationship discrimination and personal exemption in an estate duty makes it easier to compute than an inheritance tax embodying these features, and also facilitates treasury estimates of revenue from the tax, since the vagaries of individual will-making can not influence the total of taxes to be paid.

Were the rate schedules of an estate duty and of an inheritance tax identical, the application of the high rates of the upper brackets of the inheritance tax would be prevented by the breaking-up of the total estate into the beneficiaries' shares for the purposes of this tax. The estate duty, on the other hand, bearing on the united total of the estate, would necessarily subject the estate to the higher rates of these upper brackets. Moreover, discrimination between classes of heirs on the basis of their relationship to the decedent is a basic principle of the inheritance tax. The direct heirs of the decedents receive by far the greater part of inherited wealth and it would be a bold legislature that would fix rates on inheritance by direct heirs even distantly approximating the rates that could be set for an estate duty where relationship discrimination did not enter.[1]

The greater revenue producing ability of an estate duty is indicated in Table 47, which shows the portions of estates of different sizes passing to heirs in the various relationship classes under the New York inheritance tax, as it was in

[1] William J. Shultz, "The Taxation of Inheritance," pp. 214–215.

Table 47: Relationship Discrimination in the New York Inheritance Tax, 1920

(Source: Report of the State Tax Commission, 1923, p. 505)

Size of Net Estate	Net Estate Minus Specific Exemptions[1] (Thousands)	Estate Transferred to Direct Heirs and Spouse (Thousands)	Estate Transferred to Cognate Relatives (Thousands)	Estate Transferred to Others (Thousands)	Ratio (Per Cent) of Net Estate Minus Specific Exemptions Transferred to		
					Direct Heirs and Spouse	Cognate Relatives	Other Heirs
$1– $1,000	$823	$372	$342	$110	45.2	41.5	13.3
1,001– 2,000	2,278	1,117	951	210	49.0	41.8	9.2
2,001– 3,000	3,226	1,774	1,212	239	55.0	37.6	7.4
3,001– 4.000	4,268	2,718	1,282	268	63.7	30.0	6.3
4,001– 5,000	4,807	3,375	1,229	203	70.2	25.6	4.2
5,001– 6,000	4,924	3,376	1,278	271	68.6	25.9	5.5
6,001– 7,000	4,721	3,468	1,097	156	73.5	23.2	3.3
7,001– 8,000	4,703	3,642	877	183	77.4	18.7	3.9
8,001– 9,000	4,574	3,333	1,046	195	72.8	22.9	4.3
9,001– 10,000	4,546	3,565	789	193	78.4	17.4	4.2
10,001– 11,000	3,947	2,806	956	186	71.1	24.2	4.7
11,001– 12,000	3,273	2,421	704	148	74.0	21.5	4.5
12,001– 13,000	3,926	2,933	842	152	74.7	21.4	3.9
13,001– 14,000	3,773	2,787	804	182	73.9	21.3	4.8
14,001– 15,000	3,598	2,554	877	167	71.0	24.4	4.6
15,001– 16,000	3,364	2,472	725	167	73.5	21.6	4.9
16,001– 17,000	3,446	2,397	849	200	69.5	24.7	5.8
17,001– 18,000	2,774	1,932	672	170	69.7	24.2	6.1
18,001– 19,000	2,937	1,992	796	149	67.8	27.1	5.1
19,001– 20,000	3,056	2,306	615	135	75.5	20.1	4.4
20,001– 21,000	2,632	1,894	658	79	72.0	25.0	3.0
21,001– 22,000	2,857	1,838	898	121	64.4	31.4	4.2
22,001– 23,000	2,698	1,876	682	140	69.5	25.3	5.2
23,001– 24,000	2,205	1,668	432	105	75.6	19.6	4.8
24,001– 25,000	2,152	1,486	563	102	69.0	26.2	4.8
25,001– 30,000	10,841	7,988	2,461	393	73.7	22.7	3.6
30,001– 35,000	9,700	7,764	1,631	304	80.1	16.8	3.1
35,001– 40,000	8,924	6,426	2,036	462	72.0	22.8	5.2
40,001– 45,000	6,991	5,345	1,278	368	76.4	18.3	5.3
45,001– 50,000	6,835	4,763	1,533	540	69.7	22.4	7.9
50,001– 60,000	10,543	7,717	2,256	570	73.2	21.4	5.4
60,001– 70,000	10,602	7,751	2,042	809	73.1	19.3	7.6
70,001– 80,000	11,167	6,702	2,871	1,594	60.0	25.7	14.3
80,001– 90,000	8,599	6,591	1,663	344	76.7	19.3	4.0
90,001– 100,000	7,561	6,080	1,404	77	80.4	18.6	1.0
100,001– 200,000	53,163	38,082	11,685	3,396	71.6	22.0	6.4
200,001– 300,000	30,441	23,398	5,919	1,124	76.9	19.4	3.7
300,001– 400,000	25,929	20,163	4,535	1,232	77.7	17.5	4.8
400,001– 500,000	18,245	14,675	2,677	893	80.4	14.6	5.0
500,001– 600,000	12,517	6,940	2,985	2,592	55.5	23.8	20.7
600,001– 700,000	8,918	6,713	1,538	667	75.3	17.2	7.5
700,001– 800,000	12,483	9,754	1,317	1,411	78.2	10.5	11.3
800,001– 900,000	8,384	6,855	192	1,337	81.7	2.3	16.0
900,001– 1,000,000	4,728	4,531	44	153	95.9	.9	3.2
1,000,001– 1,500,000	37,029	24,377	11,022	1,630	65.8	29.8	4.4
1,500,001– 2,000,000	14,879	12,914	1,897	68	86.8	12.8	.4
2,000,001– 3,000,000	20,385	14,933	4,965	486	73.2	24.4	2.4
3,000,001– 4,000,000	33,645	25,426	4,436	3,783	75.6	13 2	11.2
4,000,001– 5,000,000	12,542	9,773	142	2,627	77.9	1.1	21.0
5,000,001– 8,000,000	11,147	9,136	329	1,681	82.0	2.9	15.1
8,000,001–10,000,000	8,673	8,634	26	14	99.5	.3	.2
10,000,000–and over	97,835	97,660	125	50	99.8	.1	.1
Total	$588,214	$461,193	$94,185	$32,836	78.4	16.0	5.6

[1] Does not in all cases equal the sum of the items of the three succeeding columns because of the calculation of each item to the nearest thousand.

1920. In that year, 78.4% of the total of the net estates of New York decedents passed to spouses and direct heirs; 16% passed to cognate relatives; 5.6% passed to more distantly related or altogether unrelated beneficiaries. To more than three-fourths of the taxable net estates, then, only the lowest scale of inheritance tax rates could be applied. Moreover, it is to be noted that in the case of large estates which paid the heaviest taxes, a much larger portion passed to spouses and direct heirs. Of estates under $50,000, 71.7% went to direct heirs and spouses; of estates between $50,000 and $600,000, 73.2% went to this group of beneficiaries; of estates over $600,000, 85.2% went to such heirs. In addition to this factor of the proportion of inheritances received by direct heirs, there is the matter of the division of the estate among individual beneficiaries. If a proportional rate were to be applied, this would make no difference in the revenue obtained, but since the rates are progressive this division of estates tends to keep the individual shares within the lower rate brackets. Under an estate duty, the rate is applied to the net estate before distribution, so that it would make no difference how many individuals participated in the distribution.

The New York Inheritance Tax and Its Relation to the Federal Estate Duty

As was described in Chapter III,[1] the New York legislature took advantage of the 25% credit allowed in the federal estate duty in 1924 by levying an estate duty whose rates were just within this credit allowance. When the rates and the credit of the federal tax were changed in 1926, New York again modified its law and changed the rates of its estate duty so as to bring them into harmony with the new federal law. This estate duty is not in addition to the inheritance tax, which has continued with its rate schedule unchanged since 1911. The amount of tax paid under the New York inheritance tax is allowed as a deduction from the New York estate duty, so that no additional tax burden is placed upon New York estates. In its proposal that New York should rely entirely upon an estate duty instead of upon an inheri-

[1] See p. 79 of this volume.

tance tax, the State Tax Commission suggested that the rates of such a duty be made those of the credit allowed under the federal estate duty.[1] This would mean simply the dropping of the present inheritance tax law with the corresponding credit allowed under the New York estate tax. The federal estate duty applies only to estates above $100,000. Presumably, although this point was not brought out, the estate duty proposed by the New York State Tax Commission would apply to smaller estates also, the rate increasing until by the time it reached the $100,000 mark it would be equivalent to the credit allowed under the federal tax.

This proposal is an indirect ratification by the New York State Tax Commission of the principles of the federal estate duty credit. It is, of course, very uncertain how long this federal credit will continue, for there is a strong movement for the complete abolition of the federal estate duty. In fact the credit was first allowed in 1924 as a compromise between those who wanted to abolish the tax outright and those who wanted to retain it. In 1926, the abolitionists were not strong enough to bring about the complete repeal of the law, but they did force a further increase of the credit as a step to this end. It would not be surprising, though it would be unfortunate from the New York State Tax Commission's point of view, if the federal estate duty were abolished in the near future. If it were, then the present New York system of inheritance taxation would have to go with it.

In view of the current disapproval of the federal estate duty and its credit clause in many circles, it is worth inquiring into the principles behind the New York State Tax Commission's approval of these provisions. Under the present system, New York obtains a rich revenue from its taxation of inheritance. It does this, however, only under the protection of the federal statute. As the law stands at present, it makes no difference whatsoever whether the decedent was a resident of New York with its high inheritance tax, or of a state without any inheritance tax; the total inheritance tax paid by his estate is the same. The only difference is that in the first case the tax goes to the

[1] Report of the State Tax Commission, 1925, p. 26.

state treasury and in the second case it goes to the federal treasury. If the federal estate duty and its credit were abolished, New York would have to take into consideration the competition of those states with no or low inheritance taxes to draw wealthy residents from New York. Other things being equal a difference in inheritance tax rates tends to take a wealthy individual out of New York into a non-taxing state.

From the viewpoint of the State Tax Commission, the federal estate duty, with its credit, safeguards the revenue of those states which are levying heavy inheritance taxes or estate duties of their own.[1] Without this safeguard, cut-throat competition between the states would whittle down the possible revenues to be derived from this source. Opponents of the federal estate duty argue that this source of revenue should be left to the states, but the State Tax Commission believes that it is the federal estate duty that permits the states to derive any considerable revenue from inheritance taxation.

The Taxation of Non-Residents' Estates

The issues of non-resident taxation, with the accompanying problem of double taxation, are the same for the inheritance tax as for the income tax.[2] Here also is a conflict between states where wealthy individuals reside and states where their property or the corporation in which they hold shares are located, but the conflict is more vivid here because of the greater universality of the inheritance tax. Only eight states tax the income of both residents and non-residents, but forty-five states face the problem of the taxation of non-residents' estates. Some of the harm of double taxation has been eliminated by provisions in the tax laws of the states for reciprocal exemption of non-residents' estates. Were this reciprocity made universal, however, it would mean the surrender of the claims of those states in which property or corporations owned by non-residents are located. It is significant that, whereas the New England states as a group and the industrial states like New York,

[1] Report of the State Tax Commission, 1925, p. 25.

[2] See p. 187 of this volume.

Pennsylvania, Ohio, Illinois and California have made arrangements for such reciprocal exemptions, the number of agrarian and mining states in the list is small.

The solution of this problem would seem to be the same as that of double taxation under the income tax. The inheritance tax—or the estate duty, if that were the form used—could be split into two taxes. The first would apply to the estates of resident decedents and its rates would be progressive; land and tangible personalty outside the state owned by a resident decedent, however, would probably have to be excluded. The other would apply to all property having a situs within the state and to shares of domestic corporations passing by the laws of inheritance or succession; this tax would be at a flat rate. The *Smith v. State Tax Commission* decision, already noted, declared illegal the flat-rate tax on non-residents' estates on the ground that within the one tax there was a discrimination without adequate foundation (residence as against non-residence of the decedent). The law, as stated in this decision, would hardly apply to an independent inheritance tax based specifically on property having a situs within the state and passing by the laws of inheritance or succession, irrespective of the residence or non-residence of the decedent. Thus, when a resident of New York died, the first tax would be applied to his entire estate, and the second tax would be applied to only so much of the estate as consisted of property with a situs in the state and of securities of corporations located in New York State. The estates of non-residents would be taxed only by the flat-rate tax. The rates of the two taxes would have to be so adjusted that their combined burden would be equivalent to the burden of the single inheritance tax now levied.

This proposition is essentially a compromise, just as the idea of reciprocity represents a compromise. However, it is one to which all states could subscribe without a disproportionate sacrifice. Moreover, it is a compromise that could be put into effect by any single state, New York for example, without negotiations with other states, and that state would be giving up no rights and suffering no losses in the meantime, while the benefits to the taxpayers of the country would increase as each additional state subscribed to the program.

The Cost of Inheritance Tax Collection

Of every $100 of inheritance tax collected in forty-eight of the sixty-two New York counties, $9.00 goes to pay the cost of collection. In individual counties the cost is far above this figure. In Hamilton County, for the fiscal year ending June 30, 1924, the cost of collecting the inheritance tax was $61.07 for each $100 received by the state treasury. In Schuyler County, the cost was $25.94; in Essex County, $21.27; in Yates County, $21.66 for each $100. Even in Bronx County, where it might be expected that the large amounts handled would hold the cost of collection to a minimum, this cost was $6.99 per $100.[1]

The cost of collecting the inheritance tax is far out of proportion to the cost of collecting other taxes. It costs only 23 cents to collect $100 of the corporation tax; $1.17 per $100 of the mortgage tax, and $1.20 per $100 of the stock transfer tax. Only the income tax, in which a far larger number of returns are handled, involves a greater relative cost; over 100,000 people pay the income tax annually, many of them in very small amounts, whereas the annual average number of inheritance tax returns is about 20,000, yet the cost of collecting the income tax is only slightly higher than the cost of collecting the inheritance tax.

The principal reason for the excessive cost of inheritance tax collection, according to the State Tax Commission, is the decentralized administration of this tax by the local officials of the sixty-two counties, involving a multiplicity of fees and other payments to surrogates, county treasurers, appraisers and attorneys.[2] New York is not the only state that suffers from decentralized administration of the inheritance tax, and it is the general experience that such decentralized administration is invariably accompanied by high cost of collection as well as by a tendency to evasion and avoidance.[3] There is a growing movement to place the administration and collection of the inheritance tax in the hands of state tax commissions or special inheritance tax commissioners. Such centralized administration has been found to result in a definite lowering of the cost of col-

[1] Report of the New York State Tax Commission, 1925, p. 27.

[2] *Ibid.*

[3] Shultz, *op. cit.*, p. 317.

lection. In Wisconsin, for example, the cost is about 2½%.[1]

There is no valid reason for retaining the present method of collecting the inheritance tax through the surrogate's courts. It is an inefficient and wasteful process. The State Tax Commission has recommended that the administration of the tax be placed in its own hands,[2] as has been done in other states. Putting this recommendation into effect would materially reduce the cost of collection and act as a positive check upon many forms of evasion.

Highway Revenue

It has come to be an established proposition that since a large part of the highway expenditures of today has been caused by and is for the benefit of automobile owners, these automobile owners should bear a part of the cost. It has been easier to find ways of making them bear a part of the cost of construction and maintenance than it has been to determine what is their fair share of the cost. Through motor vehicle license charges and through gasoline taxes a revenue can be raised from automobile owners to be applied to highway purposes. But what proportion of the total highway cost should be so raised is a complicated problem.

The problem has been made more difficult by the separation in most states of their roadway systems into state systems and local systems. There is a tendency to devote the proceeds of motor vehicle license charges and gasoline taxes to the construction and maintenance of state highway systems.[3] The proportion of highway mileage comprised by the state systems differs from state to state, and this further confuses the attempt to determine the proper share of highway costs to be borne by motorists.

[1] National Industrial Conference Board, "The Tax Problem in Wisconsin," p. 118.

[2] Report of the State Tax Commission, 1924, p. 22.

[3] About one-fifth of the motor vehicle license charges and somewhat less than one-quarter of the gasoline tax revenue are distributed to local governments for road purposes. For the éxact proportions in the various states see National Industrial Conference Board, "Cost of Government in the United States, 1925–1926," Table 77, pp. 222–223.

The Proportion of New York Highway Costs Borne by Highway Users

Table 48 shows the proportion that motor vehicle license charges and gasoline tax revenues were of the total current highway revenues of the states in 1925. For the country as a whole the proportion was 37.6%. In New York the proportion was 25.1%.

Seven other states—Indiana, Mississippi, Nevada, New Mexico, North Dakota, Wisconsin and Wyoming—had lower proportions of motor vehicle revenue to total highway revenue than New York. However, in none of these seven states were there so many automobiles per mile as in New York. The number of automobiles per mile of road or highway in New York in 1925 was 19.8, the number for Indiana was 9.9, for Wisconsin 7.5, for Mississippi 3.2, for New Mexico 1.0, for Wyoming 1.0, and for Nevada .9. Relative to the number of automobiles in the state and the mileage of highways constructed and kept in repair, New York makes smaller demands upon its motorists than any other state.

There is no categorical answer to the question what proportion of the burden of highway costs should be borne by motorists and what proportion should be a charge on the general tax-paying public. It is a question of policy which legislatures must decide. Relative calculations based on the actions of other states, such as that shown in Table 48, are not and cannot be binding, but they are valuable as guides to action. The fact that New York is at present making a smaller relative demand upon its motorists than other states is not a final reason for increasing the future burden upon them, but if the New York legislature should desire to increase the tax burden it would have greater justification for such a move than, for example, Rhode Island, Connecticut, Michigan or South Carolina.

The possible methods of raising an increased highway revenue, if such were desired, are discussed below.[1] Anticipating the conclusions reached, it may be stated here that any further increase of highway revenue would be better

[1] See pp. 203–204 of this volume.

Table 48: Ratio of Special Highway Revenue to Total Current Highway Revenue, by States and Geographic Divisions, 1925

(Source: Data furnished by United States Bureau of Public Roads)

States and Geographic Divisions	Per Cent of Total Current Highway Revenue Contributed by		
	Total Special Highway Revenue	Motor Vehicle License Charges	Gasoline Taxes
United States	37.6	25.7	11.9
New England	43.0	36.6	6.4
Maine	37.4	24.1	13.3
New Hampshire	52.5	36.6	15.9
Vermont	50.7	37.4	13.3
Massachusetts	35.9	35.9	[1]
Rhode Island	54.7	49.4	5.3
Connecticut	51.6	42.9	8.7
Middle Atlantic	36.3	33.3	3.0
New York	25.1	25.1	[1]
New Jersey	43.5	43.5	[1]
Pennsylvania	46.7	38.3	8.4
East North Central	34.3	27.6	6.7
Ohio	28.9	20.2	8.7
Indiana	24.0	10.6	13.4
Illinois	50.9	50.9	[1]
Michigan	52.2	46.6	5.9
Wisconsin	19.6	19.6	[2]
West North Central	36.9	25.4	11.5
Minnesota	38.0	28.9	9.1
Iowa	38.4	32.7	5.7
Missouri	45.4	28.7	16.7
North Dakota	12.8	12.8	..
South Dakota	33.6	18.8	14.8
Nebraska	38.4	19.6	18.8
Kansas	31.3	18.8	12.5
South Atlantic	38.8	18.3	20.5
Delaware	39.8	27.4	12.4
Maryland	32.4	18.0	14.4
Virginia	42.8	21.9	20.9
West Virginia	47.9	24.4	13.5
North Carolina	33.7	16.0	19.7
South Carolina	52.9	17.7	35.2
Georgia	30.8	16.1	14.7
Florida	43.2	15.1	28.1
East South Central	34.9	18.0	16.9
Kentucky	43.6	26.6	17.0
Tennessee	38.8	19.5	19.3
Alabama	39.2	19.4	19.8
Mississippi	21.8	8.8	13.0
West South Central	44.0	28.4	15.6
Arkansas	47.8	30.5	17.3
Louisiana	47.7	28.1	19.6
Oklahoma	42.7	18.6	24.1
Texas	41.6	32.8	8.8
Mountains	27.1	13.2	13.9
Montana	29.6	21.8	7.8
Idaho	28.8	16.3	12.5
Wyoming	20.3	10.8	9.5
Colorado	31.0	11.9	19.1
New Mexico	19.7	9.0	12.7
Arizona	34.0	22.5	11.5
Utah	22.4	8.4	18.0
Nevada	18.4	6.6	11.8
Pacific	44.0	18.5	25.5
Washington	48.2	26.5	21.7
Oregon	38.8	23.9	14.9
California	44.9	13.3	31.6

[1] No gasoline tax levied.

[2] Not applicable to highway purposes until after July 1st.

encompassed by a gasoline tax than by increasing the rates of the present system of motor vehicle license charges.[1]

The System of Highway Revenues

New York has a very simple system of motor vehicle license charges. Private passenger cars are taxed according to their net weight and private trucks according to their gross weight. Common carrier trucks are taxed according to capacity.

The history of the development of motor vehicle license charges in most states, however, has been marked by an increasing refinement in sub-division and in sub-classification of the bases for the charges. There are thirteen bases, ranging from a flat rate to such factors as gross receipts and regularity and irregularity of routes in the case of common carriers, and these thirteen bases are used in every conceivable combination. The state legislators and the highway officials who advise them are working on a very praiseworthy principle. They feel that motor vehicles should be taxed according to the use they make of the roads and the damage they do to these roads, and this complexity of bases, this imposition of refinement upon refinement, has resulted from the attempt to base the tax with detailed and minute accuracy upon these principles.

This refinement has overshot its mark. In some cases the combination of bases and classification and subclassification has been pushed to such an extent that the schedules have become meaningless as a measure of either use or damage. In other cases, as when mileage or gross receipts are used as bases of charges on common carriers, the car owners are forced to keep difficult and expensive records; this is particularly true when these measures are applied to buses whose routes cross state lines and when an attempt is made to apportion the charge on the basis of mileage or gross receipts.

This refinement is doubly useless when the attempt is to base the charge on the damage caused, since the revenue from highway charges is used not only for the maintenance and repair of roads, but for the construction of new roads as

[1] See also New York Legislative Document, 1926, No. 69.

well. Motor vehicle charges developed before the gasoline tax, and therefore they have entrenched themselves more firmly in state tax systems, but experience has shown that the gasoline tax is the better and smoother medium of raising highway revenue. A complex combination of motor vehicle charges with an appended gasoline tax, such as is found in most of the states today, may be a praiseworthy attempt to achieve an abstract ideal of justice, but it is open to the criticism of complexity and confusion.

California and the District of Columbia have shown the way out of the dilemma. In these two jurisdictions the gasoline tax is made the keystone of the highway revenue system. In addition to the gasoline tax, California imposes a flat $3.00 charge on passenger cars and additional privilege charges on trucks and common carriers. In the case of common carriers, however, California has committed the error of using the unsatisfactory base of gross receipts. The gasoline tax certainly covers the principle of making motorists pay according to their use of the roads; and, inasmuch as heavily laden or rapidly driven vehicles use up more gasoline per mile than other cars, it also in a rough way takes damage into consideration.

The motor vehicle license charge should be retained, both as a means of regulation and because it reaches the "week-end driver" who jams the highways on Saturdays and Sundays, thus necessitating extra width, and who would not be compelled by a gasoline tax to pay his proper share towards the special highway costs necessitated by him. A flat fee, as has been provided for in California, would equitably and simply meet this issue. There is also a special privilege element in the use of the highways by trucks and common carriers. They are earning business profits for their owners, thanks to expenditures out of the public treasury. It is not unreasonable to charge them for this special privilege, but the basis of the charge should be simple—either gross weight or, in the case of common carrier passenger cars, capacity. The only vehicles not covered by such a system of highway taxation are trailers and electrically driven vehicles. Special charges would have to be provided for such vehicles.

Use of the Gasoline Tax

The gasoline tax is preferable, for its simplicity, to the motor vehicle license charge as a means of raising highway revenue. If the New York legislature feels that motorists should pay a larger proportion of New York's highway bill than they do at present, or if a larger total of highway revenue should become necessary because of increased highway expenditures, it would be advisable to draw the additional revenue from a gasoline tax rather than from an increase of the rates of the motor vehicle license charges, since the awkwardness of these is magnified by any increase in their rates. If the legislature feels that no further special burden should be laid upon motorists, it would be advisable to revise the New York system of highway revenue along the lines of the California and District of Columbia systems, making the gasoline tax the basis of the system and using the motor vehicle license charges to reach the week-end driver, to cover the special privileges of trucks and common carriers, and to reach vehicles not driven by gasoline. Each cent of gasoline tax would produce about ten million dollars of revenue annually.

CHAPTER VIII

POSSIBLE SOURCES OF ADDITIONAL TAX REVENUE

IF AND when NewYork should require more tax revenue than its present system of taxes can yield, it might be possible to obtain this additional revenue by increasing the rates of certain of the present taxes, but as shown in the preceding chapters, this procedure would not be expedient. In fact, in at least one case, the inheritance tax and estate duty, it may be necessary in the near future sharply to reduce the rate.

Are there any types or methods of taxation, at present not a part of the New York system, which could be incorporated into that system? Arguments for and against the imposition of a gasoline tax were given in the preceding Chapter. In addition, other special taxes, among them a tax on unincorporated business enterprises, a filing fee to be linked with the personal income tax, and a retail sales tax, have been proposed.

The Tax on Unincorporated Business Enterprises

Both the State Tax Commission and the Special Joint Committee on Taxation and Retrenchment recommend a tax on unincorporated business enterprises.[1]

There are two aspects of this proposal. In the first place, it is linked up with the suggestion that the remnants of the personal property tax be dropped. This would result in an annual loss of $6,500,000 of revenue to the localities and in a smaller loss to the state government. This loss would be made up, or more than made up, by the imposition of a new tax based on the net income of partnerships and individual business enterprises. In a way, such a tax would be a substitute for the abolished personal property tax, since

[1] Report of the State Tax Commission, 1924, pp. 14–17; New York Legislative Documents, 1922, No. 72, pp. 126 ff; 1925, No. 97, p. 180.

the greater part of the taxable personal property in the state at present is owned by such business enterprises.

Apart from the idea of getting additional revenue, the important consideration in the minds of the State Tax Commission and of the Special Joint Committee in making this recommendation was to end the present tax discrimination against incorporated business enterprises and in favor of competing unincorporated business enterprises. As was indicated in the preceding Chapter,[1] there is a very real discrimination involved. The present taxes upon incorporated business enterprises take considerably more of the net income of these enterprises than do the taxes on unincorporated concerns.

It is sometimes argued that there is no real discrimination against incorporated business, since the profits of private enterprises and partnerships are taxed as income to the owners or partners under the personal income tax. However, under the New York law, the dividends paid by corporations are also taxed to the recipients as personal income. It is true that all of the earnings of corporations are not immediately declared as annual dividends, but the discrimination through the personal income tax against the earnings of private enterprises and partnerships is very small, in no way comparable to the additional burden which the corporation tax places on corporations.

The Basis of the Tax

At first glance it would appear that unincorporated and incorporated business could be put upon the same tax basis, since the present tax on mercantile and manufacturing corporations is based primarily on net income. However, these incorporated enterprises have to pay an alternative tax of one mill on their capital stock, if their income should be less than $2\frac{2}{9}\%$ on the investment. There would be no similar basis for an alternative capital stock tax on private enterprises. Moreover, the apparent profits and net incomes of partnerships and private enterprises often include the salaries of the partners or proprietors, and it would be a delicate problem to force a division of these annual earnings

[1] See pp. 176–177 of this volume.

into salaries and into profits, for the temptation for the partners or proprietor would be to expand the salary item and decrease the profits item as much as possible. Therefore, it would seem wiser to base an income tax on unincorporated business upon the profits of the enterprise before the deduction for partners' or proprietors' salaries. Such a provision might work a hardship upon small businesses where the earnings barely compensate the proprietors for their labors. In view of this situation the State Tax Commission recommends a $5,000 exemption.

Even with the tax based upon earnings before deduction for salaries, a tax on unincorporated business at a 4½% rate would not necessarily represent a heavier tax burden. If the business were earning less than $2\frac{2}{9}$% on its invested capital, its tax burden might be considerably lighter than that upon a corresponding corporation, since the latter would not be taxed on an income basis but would pay one mill on its capital stock or a $10 minimum tax.

Because of the different character of the possible taxes on incorporated and unincorporated enterprises, an exact correspondence of rates could never be reached. The Special Joint Committee suggests a 5% rate[1] on the income of private enterprises and partnerships. The State Tax Commission has not committed itself on this point. It would seem reasonable, however, to fix the rate at 4½% so that the proprietors of individual and partnership enterprises would not feel that they are being discriminated against. A 4½% net earnings tax allowing a $5,000 minimum exemption but no deduction for proprietor's or partner's salaries would produce about $15,000,000 of revenue a year.

The Retail Sales Tax

After a period of disrepute and condemnation by economists, the sales or turnover tax in modified forms is once again receiving consideration and is finding its place in the tax systems of the United States and of other countries, in some cases in a partial form through particular state excises,[2] in other cases through complete sales taxes.

[1] New York Legislative Document, 1925, No. 97, p. 191.

[2] See Robert M. Haig, "Eight Billions in Taxes and What Becomes of Them," *World's Work*, Vol. LIII, March, 1927.

Types of Sales Taxes

In general, sales taxes may be classified into three forms. The first is the gross sales tax which is levied upon every sale or turnover of commodities, real property, and capital assets, as well as on services, rent and interest. The second form is a modified sales tax levied only on sales or turnover of goods, wares and merchandise. The third form is the retail sales tax which is levied once on each commodity before it reaches the ultimate consumer's hands.

Examples of the gross sales tax are found in France, in Germany, in several of the Latin-American countries, and in West Virginia. The Philippine Islands, Canada and Pennsylvania offer examples of the modified sales tax. There are no examples of general retail sales taxes in present-day tax legislation; the so-called "retail sales tax" of Connecticut on examination proves to be a gross income tax on unincorporated manufacturing and mercantile establishments.

The main distinction between the gross and modified sales taxes and the retail sales tax is that the two former might, and would often, tax the same item or commodity several times in the course of its industrial and commercial progress, whereas the latter would tax it but once. This multiple or repeated taxation of a given item or commodity is the main objection against gross and modified sales taxes. They discriminate in favor of business enterprises carrying on several consecutive processes in the manufacture or distribution of a commodity and against those not so self-contained.[1] If industry adapted itself to the tax, it would be through the organization of vertical combinations. If it did not so adapt itself, a discriminatory tax burden would be laid on the single process producer or distributor. In the Canadian tax an attempt was made to overcome this difficulty by taxing sales from the manufacturers direct to retailers or consumers 2%, while sales to and by wholesalers or jobbers were taxed 1% and sales by retailers were exempted. Such provisions complicate administration, however, and only partly solve the problem.

The retail sales tax, imposed on each item or commodity

[1] See *Proceedings* of the Second National Industrial Tax Conference, 1920, p. 165, and Edwin R. A. Seligman, "Studies in Public Finance," 1925, pp. 133–135.

but once, obviates this difficulty, and, other things being equal, is to be preferred to either gross or modified sales taxes.

The Incidence of the Retail Sales Tax

In its ultimate burden and effect, the retail sales tax is essentially a universal excise tax. Allowing for exceptional cases of rigidly standardized prices, it is an expenditure tax and is shifted to consumers.

This aspect of the tax has been seized upon by some economists as the basis for denunciation and by others as the basis for praise. One group holds that a sales tax is an inverted income tax; it taxes the rich man relatively lighter than the poor man, since, although the rich man consumes more than the poor man and will accordingly pay a larger tax, the amount of his consumption will not increase in proportion to his wealth[1] or income. A second group of economists, who favor the sales tax, hold that the true concept of income is "services consumed over a period of time," and that a retail sales tax would be the closest approximation to a "true income" tax.[2] Moreover, they claim that it would not burden savings, and hence would encourage economic progress.

Popular opinion seems to be more in accord with the criticism that the sales tax places a heavier burden on the poorer elements of the population who have the smallest tax-paying ability. It should be noted, however, that there are broad groups of the population in New York State which have incomes beneath the high exemption limit of the state personal income tax law and which are reached only remotely and are slightly affected by the other taxes. A moderate retail sales tax would draw a small contribution from them towards the expense of the state and local governments from whose activities they benefit.

The edge of this criticism would be removed, moreover, if the retail sales tax were classified. Two, or at the most three, broad classes would suffice. Necessities would be taxed at the lowest rate, but even a very small tax on necessities, amounting to an inconsiderable burden on the indi-

[1] Seligman, *op. cit.*, p. 137.

[2] See Irving Fisher, "The Income Concept in the Light of Experience," 1928.

vidual consumer, would be productive of considerable revenue in view of its broad base. Semi-luxuries and luxuries would be taxed at a higher rate or rates. It is possible that such a classification might change the character of a retail sales tax from regressive (bearing relatively heavier on the poorer elements of the population) to proportional or even progressive.

Problems of State Retail Sales Taxes

A state gross sales tax, like that of West Virginia, may in part be forced back on the manufacturers or distributors. If a portion of their markets is outside the state's boundaries, they must compete with the untaxed producers of other states. They can not add the tax to the price of sales outside the state; they must bear it themselves. This problem does not arise in the case of a retail sales tax, since sales made outside the taxing state would not be reached.

Other problems arise, however. Retailers situated near the borders of a taxing state may have to compete with untaxed retailers across the state line. This would be a particularly crucial problem in New York in view of the proximity of the large cities of New Jersey to New York City. The consequence of such competition is that the rate of the tax must be kept sufficiently low to discourage any extensive retail purchasing in the non-taxing state.

Another problem would be that of mail-order sales, or of sales made through domestic agencies but which are consummated at home offices in other states. It is probable that there would be constitutional as well as practical difficulties in the way of taxing such sales. It is doubtful if they could be reached; consequently the rate of the tax would have to be low so as not to offer them special encouragement.

Administration of the Retail Sales Tax

The administrative problem of a retail sales tax would be serious and this fact is one of the main objections to such a tax.[1] There would be the difficulty of distinguishing between wholesale and retail sales in the case of concerns which combine both businesses and there would be the further

[1] *Proceedings* of the Second National Industrial Tax Conference, 1920, p. 167.

difficulty of distinguishing between sales made to producers and those made to consumers. It is not evident, however, that such difficulties are insuperable. Where a business house makes both kinds of sales, it would be necessary to distinguish on the books between sales to individuals and sales to concerns, either incorporated or unincorporated. The former would be taxed; the latter would not.

There would also be the difficulty of taxing the small shop which keeps no accounts or imperfect ones. This issue might be met by exempting outright all concerns with an annual turnover of less than $5,000, although such an exemption would be contrary to the principles of the tax. A better solution would probably be to fix a flat tax for such shops, about $10 or $25.

A much more serious problem is presented by concerns which combine inextricably the sale of commodities and services, such as restaurants, custom tailors and prescription druggists. In these cases, the solution would probably be to base the tax on the cost of materials and commodities purchased by the concern plus an arbitrary turnover profit.

The overhead cost of administering a retail sales tax would not be excessive. It would probably be somewhat less than the administrative cost of a personal income tax though more than that of a corporation tax.

Any advance estimate of the yield of a retail sales tax must be largely guess work. A minimum estimate of the retail sales made in New York in 1926 is $5,376 millions.[1] A 1% retail sales tax would therefore probably yield over $55 millions annually. A lower rate or classification would effect corresponding changes in the yield.

The Income Tax Filing Fee

The poll tax was once an important element in the tax system of the American states, but at present it is barely

[1] This estimate was arrived at by taking the $632 per capita retail sales figure determined by a survey of representative cities made by the United States Chamber of Commerce in conjunction with the United States Bureau of the Census and applying it to the 8,505,563 population in the sixty New York cities. This estimate therefore does not take into account retail sales made in the rural districts of New York or the probable higher standard of living of New York City dwellers as compared with those in other states.

tolerated in a few states as an item of village revenue. The reasons for its disfavor are not far to seek. It was frankly and grossly regressive, bearing most heavily on the poorest element of the population. While it is capable of enforcement in rural districts where a large proportion of the population are property owners and where there is a possibility of tracing non-property-owners, it completely breaks down in urban regions.

As in the case of the sales tax, however, there is a growing interest in the poll tax in a modified form of an income tax filing fee. The incorporation of personal income taxes and of corporation and business taxes of a progressive character into the tax system of many of the American states has given these tax systems a decidedly progressive character. As the relative importance of these progressive taxes in the general tax system grows, a place is made for efficient, simply administered taxes with a high revenue yield, even though these taxes by themselves are of a regressive character and rest largely on the poorer elements of the population.

The Delaware Filing Fee

In 1919, Delaware provided for a progressive income tax, the rates of which were 1% on the first taxable $3,000, 2% on taxable amounts from $3,000 to $10,000, and 3% on the taxable excess over $10,000. In 1921, a supplementary filing fee, since abolished, was added to the income[1] tax, and the revenue from it was earmarked to the state school fund. The provision of this filing-fee law[2] made the filing of an income tax return mandatory upon "all persons over 21 years of age regardless whether they have or have not any income." A three-dollar charge was attached to this mandatory return. In effect this filing fee was a modified poll tax, reaching family income units rather than individuals. It reached that great mass of individuals whose income brings them below the income tax exemption limit, but who have nevertheless a certain, though limited taxable capacity. At the same time, a great part of the administrative work, that would arise if any attempt were made to reach them under a regular income tax, was eliminated.

[1] National Industrial Conference Board, "Fiscal Problem in Delaware," p. 75.
[2] Session Laws, 1921, Chap. 9.

Application in New York

This Delaware filing fee embodied a principle which could well be adapted to the New York income tax system. It is, however, hardly to be taken as a model. In the first place, such a tax should apply not so much to individuals as to income-receiving units. It would seem reasonable that husband and wife, even where both are receiving incomes, should be considered a unit; in the great majority of cases, of course, the bulk of the family income is earned by the husband, the wife's contribution being a subsidiary factor. Children over twenty-one years of age, if they are earning or receiving income on their own account, might well be treated as independent units.

In the second place, the Delaware law requires filing of an income tax return from every recipient of income. From the statisticians' viewpoint this is a fortunate provision since it results in valuable statistics of income. It involves, however, additional labor on the part of the taxpayer, and causes a certain amount of dissatisfaction on his part, and it also means extra administrative labor and expense. The same revenue results could be obtained if, in the case of those receiving income under a given figure, the filing fee were attached, not to a report of that income, but to an oath that the income did not exceed the given exemption. In the case of taxpayers receiving income above the given figure, the fee would be attached to their income tax returns.[1] From an administrative point of view, the argument for attaching the filing fee to an oath that the taxpayer's income does not exceed the personal exemption instead of attaching it to a full return of income, would seem unanswerable.

There are about two and one half million family groups in New York State.[2] This would indicate a minimum yield of $7.5 millions from a $3 filing fee.

[1] In 1922, the Special Joint Committee proposed a one dollar filing fee of the Delaware type to accompany income tax returns from every receiver of income (New York Legislative Document, 1922, No. 72, p. 74). A higher charge would increase the revenue but not the administrative expenses of tax collection.

[2] Applying the average of 4¼ members per family shown by the 1920 Federal Census to the U. S. Bureau's estimate of 11,550,000 population for July 1, 1928.

Special Sources of Local Revenue[1]

In his annual message for 1923, in considering sources of taxation and particularly the heavy tax burden on real estate, the Governor of New York State said, "The solution may be found in local income taxes, local business or occupation taxes, local privilege taxes and local luxury taxes." The danger and disadvantages of local income taxes have already been indicated.[2] In connection with special local taxes on business and occupations, the Committee on State Taxation of Business Concerns of the National Tax Association has recommended that all local licenses or occupation taxes "except those in the nature of fees imposed under the police power for protecting the health, safety, morals or welfare of the people, be abolished. They are regarded as a curse. They are often so onerous that they prevent the extension of business to the communities in which they are levied and thus retard the economic growth of localities that are most in need of development. In the long run they impair the growth of taxable wealth and thus tend to reduce the state and local revenues."[3] However, although it is unwise for municipalities to levy special tax burdens on general business enterprises and occupations, there are certain special activities which are quite within their power to tax.

Four years ago there were only four cities in New York that levied any taxes on bill-boards whatsoever. Now practically every city in the state assesses them as real estate and so derives revenue from them. Again, the substructure of many buildings extends beneath the streets on which they front; it is very common, for example, to build bank vaults under the surface of city streets. These are not special franchises and are not and should not be taxed as such. There is, however, a very definite privilege involved, which should be paid for. At present, very few cities tax the use of the ground beneath their streets. There is no reason, however, why a privilege charge should not be made

[1] For general consideration of this subject, see Jens P. Jensen, "Public Revenue Sources Supplemental to Taxes," *Proceedings* of the Twentieth Annual Conference of the National Tax Association, 1927.

[2] See pp. 186–187 of this volume.

[3] *Proceedings* of the Twelfth Annual Conference of the National Tax Association, p. 113.

for such use, and this is recommended by the New York State Bureau of Municipal Information.

Very few other local governments other than cities obtained interest on their daily bank balances. These deposits are usually considered political plums to be granted to the local bankers who supported the party in power. Through the influence of the Bureau of Municipal Information all but one or two cities now get interest on their daily bank balances, some as high as 6%. Most of them receive from 2% to 3%. Villages and other local governments are beginning to learn from the example of the cities and are now making efforts to obtain some return on their bank deposits.

The Special Joint Committee on Taxation and Retrenchment has pointed out at length a number of subsidiary sources of local, particularly city revenue:

> "The paucity of licenses for occupations lately arising from altered business conditions is significant. Though fifty-one cities require a license from junk-dealers, only nine impose one on employment agencies. Forty-nine municipalities continue the inherited fees for peddlers and hucksters, but only four have adjusted their schedules to include the gasoline dealer. Licensing of soft drink parlors has been confined almost entirely to the collection of fees of one to five dollars, amounts which cover hardly more than the cost of licensing.
>
> "Only six cities in the state exact a fee for a building permit. The personal license for builders and contractors is not imposed in any New York municipality, though plumbers pay an initial or periodic fee in twenty-one cities. Examining the installation of electrical wires and apparatus, plumbing, elevators and boilers and their periodic inspection call for extra expenditure by the community and result in an individual benefit, but no fees are charged in any city to meet the costs.
>
> "With minor exceptions, New York municipalities bear the cost of regulating establishments liable to be injurious to the health of the community without making the businesses pay for the expense which they require. The one

exception to this practice is the licensing of milk dealers by twenty-two municipalities. A scattering number exact a fee from a few tradesmen, as butchers or bakers, subject to inspection by the local health authority. Though the continued supervision of hotels, lodging and boarding houses is caused by the nature of the business, the extra expense of inspection, with the exception of one city, is borne by the municipality. The practice is common among municipalities of allowing restaurants and cafes the right to engage in business only on condition that a statement has been procured from the health authority certifying that the premises are in a sanitary condition and free from any danger to the public health. Only five New York cities attach to this statement a moderate fee to cover the cost incident to regulation.

"The licensing practice leaves entirely untouched numerous activities with a health hazard to the community. Poultry dealers, laundries and confectioners are among the activities which present practices exempt from any supervisory expense.

"A greater effort to reach the various forms of commercial recreation has been made in the license schedules of New York municipalities than in any other type of license. Circuses and theatres are required to pay for a permit or license in fifty-one and forty-one cities respectively. The number imposing a license upon moving picture theatres drops to twenty-seven. The pool-room, the billiard parlor, the bowling alley, and the dance hall are uniformly subject to special police regulation and in the larger numbers of cities outside of the state to the payment of a license. Yet for each of these types of commercial recreation less than twenty New York cities seek to offset the extra expense of supervision by the collection of a license."[1]

In seeking sources of additional revenue, consideration may well be given to the wider application of special taxes of these kinds.

[1] New York Legislative Document, 1925, No. 97, pp. 81–84.

CHAPTER IX

THE INTERRELATION OF STATE AND LOCAL FISCAL POLICIES

As noted earlier in this volume, recent years have witnessed a marked expansion and redistribution of the functions of the state and local governments of New York. The state government now supplements many activities that were formerly considered exclusively local. Despite such parallel expenditure of state moneys, local activities, as measured by expenditures, have expanded more rapidly than has the assessed valuation upon which the local general property taxes are based. Between 1917 and 1925, local net expenditures increased from $314.5 millions to $771 millions, or 145.2%, while realty assessments increased from $12,007 millions to $20,288.2 millions, or 66.1%. This growth of local expenditures out of all proportion to the possibilities of the general property tax, hitherto almost the sole source of local revenue, has resulted in a series of readjustments of the state and local revenue system in an effort to broaden local revenue resources.

Four methods of coordinating the revenue systems of a state government with those of its subsidiary local governments have been practiced in New York: (1) the levy of a tax by the local governments with additions for the state government; (2) separation of the sources of revenue, certain revenues being earmarked to the state government and others to the local governments; (3) the levy of taxes by the state government with a division of yield between the state and local governments; and (4) "state aid," or state subventions to the local governments for specified purposes. The first of these four fiscal relationships had historical precedence in New York; the latter two have been developed in modern times. In addition the distribution of governmental functions between the state and local governments must be

considered, since this distribution of functions determines their relative expenditures and hence their relative revenue requirements.

The Distribution of Governmental Functions

As expressed by one writer, "It is the local governments' misfortune that the costlier functions fall to their lot while the more lucrative sources of revenue belong to the states."[1] These costlier functions belong to the local governments by tradition. They are not always exercised more efficiently by local governments, however, than by state governments. Though it runs counter to the traditional principle of local self-government, there is strong argument for the transfer of many functions, hitherto exercised by local governments, to state authority, both with a view to promoting economy and efficiency and to relieve pressure on the limited sources of local tax revenue.

Some steps along this line have already been taken in New York. The state, not the localities, now cares for the insane poor. State activities in highway construction and maintenance represent a break with past tradition. Other local functions have developed at such a rapid pace, however, that the relief so far afforded by transfer of functions has not been reflected in lower tax rates. Certain functions, such as the construction and maintenance of county roads and the care of the aged poor suggest that they could be immediately and logically shifted from the local governments to the state. The case for the complete transfer of other functions, such as education, is not so clear.

Local Taxes with State Additions

Prior to 1880, poll taxes and the general property tax constituted practically the entirety of New York's state and local tax system.[2] The revenue from poll taxes was reserved to the local governmental bodies levying them. The general

[1] Mabel Newcomer, "Tendencies in State and Local Finance and Their Relation to State and Local Functions," *Political Science Quarterly*, Vol. XLIII, p. 2.

[2] J. C. Schwab, "History of the New York Property Tax," 1890, p. 72; Frederick D. Bidwell, "Taxation in New York State," 1918, pp. 65–66.

property tax provided revenue for both the state and the local governments.

The simple character of the property, real and personal, to be taxed made possible the delegation of the assessment and collection processes to local agencies. In New York, as in the New England states, the town was the unit of fiscal administration. The state derived its revenue from the general property tax by a general rate superimposed on the tax rates of the local governments. The tax was collected by town officials and the state government's share was paid to it by them.

Three developments have somewhat modified the simplicity and uniformity of this arrangement. In the first place, in relieving the major part of the personal property in the state from taxation under the general property tax, the personalty of corporations taxed under Art. IX of the Tax Law has been relieved of state but not of local taxation. Thus the state rate does not apply to all property taxed under the local general property tax. In the second place, the towns no longer monopolize the processes of assessment and collection; equalization between counties and the assessment of special franchises are exercised by state agencies. These deviations from the earlier system, however, cannot be said to go to the root of the assessment and collection of the general property tax, which functions still remain essentially local. Finally, during three short periods, from 1906 to 1910, in 1914, and again in 1916, the state government levied no state rate on property, but left the tax exclusively to the local governments. Since 1917, however, the state has levied a rate, though not a uniform one.

The general property tax is the only example in New York of the levy of a tax by the local government with a superimposed rate for state revenue. The mortgage recording tax is wholly, and the motor vehicle license charges and the estate duty and inheritance tax are partly collected through local agencies, but all three are levied by state statutes. The revenue from the two first is divided between the state and local governments, while the revenue from the estate duty and inheritance tax is reserved to the state government.

Separation of Sources of Revenue

As the functions of the local governments were expanded towards the end of the nineteenth century, it was realized that their sources of revenue would have to be increased. For a time the argument was popular in New York, as in several other states, that the general property tax was quite sufficient to provide the local governments with all the revenue they needed, provided that the state added no supplementary rates. With the state tax withdrawn, it was felt that the local governments could increase their rates and so draw an increased revenue from the general property tax. The state government, meanwhile, would be free to expand its system of special taxes on corporations, on inheritance, on stock transfers, and so forth.

The New York legislatures were influenced by this argument, and during the early years of the twentieth century it was announced as the avowed purpose of the state to obtain all of its revenues from sources other than the general property tax, so that the local governments would be able to increase their rates without throwing an added and oppressive burden on land and such other property as was reached by the tax.[1] Reduction of the state property tax rates was begun in 1902. In 1906, the state property tax was completely abolished, and no state revenues were drawn from this source through 1910.

In that year, the state government discovered that its tax system minus the state rate on property would not cover the expenses of the coming year. From 1911 through 1913, state rates on property were imposed. In 1914, the tax was dropped. It was imposed again in 1915, dropped in 1916, and again levied in 1917. Since 1917, the state has found it necessary to continue the use of a state rate on property.

The doctrine of the separation of sources turned essentially on the general property tax. This tax was to be "separated" from the state government, so that the local governments could enjoy its exclusive application. Although the principle broke down with regard to the general property tax there is

[1] Margaret Smith, "Division of State and Local Taxes in New York State," *National Tax Association Bulletin*, Vol. XI, p. 14.

still some degree of "separation" in New York's tax system since the revenue from certain taxes is reserved to the state government. These comprise the corporation organization and license charges, the corporation taxes under Art. IX of the Tax Law, the estate duty and inheritance tax, the stock transfer tax and some of the minor taxes. Moreover, there are certain other minor items of revenue which, since they have been obtained only by the local governments, might be considered ear-marked or "separated" for their use. Among these would be considered charges for highway privileges and special municipal license charges.

The Failure of Separation as a Solution of the Problem

There are three strong arguments against the doctrine of separation. In the first place, the very basis of the principle of separation is the idea that local governments can derive sufficient revenue from the general property tax and other taxes earmarked to their sole use to cover all their activities. In view of the preponderant governmental activities of the local governments, separation, if it succeeded, would throw the greater part of the burden of the cost of government on the general property tax, and from a practical point of view this would mean placing the burden upon land. The desired revenue could be raised because, after all, land can not escape the tax; but, granting all the possibilities of shifting, this would be a grave discrimination against land owners and impossible to defend upon any principle of justice. Of course, if before separation the state as well as the local governments were relying almost exclusively upon the general property tax, separation would effect an amelioration. Credit for this amelioration should not be given to the principle of separation itself but rather to the impulse it would give towards the development of new sources of revenue. Were these same sources of revenue developed without the accompaniment of separation and were the local governments allowed to draw a revenue from them in one way or another, the same and probably a greater amelioration would occur.

In the second place, the surrender of the property tax to the localities is usually accompanied by the relinquishment

of state control and supervision over local assessments. Since there is no state tax, this decentralization does not result in any inequality as between counties, but there is a marked tendency for all other types of discrimination and inequality in the general property tax to be exaggerated, once the supervision and unifying effect of state administration is removed.[1]

Finally, the psychological effect of separation should be considered. If the property tax were earmarked to the exclusive use of the local governments, taxpayers would have a very direct interest in the expenditures of these local governments, since they could not help but realize that these expenditures were directly reflected in the taxes paid upon their property. If the state government raised the larger part of this revenue through indirect methods or through the taxation of business, many voters would feel that they had no stake in the activity of the state government and would be indifferent to the economy or conduct of its enterprises. In order that the majority of the citizens should retain their interest in state affairs and not be tempted to squander revenues which they did not help to pay, it is desirable that a part of the locally collected taxes be used for state purposes.

Division of Revenues

It was early realized that the local governments of New York could not depend for their revenue upon the general property tax exclusively. Even separation of the sources of the revenue, with the earmarking of this tax to the use of the local governments, would not have solved this problem. Additional revenue had to be obtained for the local communities. There were no other taxes of any importance that could be successfully administered by local officials. One solution was to give the local governments a portion of the revenue from taxes collected by the state.

History of the Division of Revenues in New York

The Raines Excise Tax Law, passed in 1896, provided for liquor license fees to be collected by state officers; two-thirds

[1] Simond E. Leland, "The Classified Property Tax" (Manuscript University of Chicago Doctoral Dissertation), 1926, p. 653.

of the revenue from this tax, however, was to go to the local governments. The primary purpose of this excise tax law was to regulate the liquor traffic in the state, and the revenue derived at first was not very large, but a precedent for a division of revenue from a state tax between the state and the local governments was established.

In 1905, mortgages were withdrawn from the general property tax and were taxed independently by a special mortgage tax. To compensate the local governments for the narrowing of their property tax base, they were given one-half of the revenue from the new mortgage tax. With a simple but efficient administration, this tax in time produced a greater revenue for the local governments than did the whole taxation of mortgages under the property tax. Although it was originally intended to be purely compensatory, the mortgage tax in time came to be viewed as an independent state tax. The principle of the division of revenue was thus more firmly established.

The official seal of approval was placed upon the principle of the division of revenue by the Mills Committee in 1916. The majority report of this committee recommended an income tax, four-fifths of the revenue of which should go to the local governments to compensate them for the loss of revenue from intangibles which would be exempted under the proposed income tax. The minority report of this committee went still further. It recommended that there should be a general sharing of revenue from all taxes, including the stock transfer and inheritance taxes. Like the majority report, it recommended that the assessment of real estate should be made the basis for the distribution of the local share of the revenue from these taxes. In the same year a committee appointed by the Mayor of New York City recommended a state income tax with one-half to three-quarters of the revenue going to the localities or else, as an alternative, a state-regulated local income tax.

In 1916, a law was passed providing that one-half of the revenue from the motor vehicle license charge should go to the counties to be used for road purposes; and in 1919 the proportion was changed to one-fourth. The Emerson Law of 1917 levying a 3% tax on the net income of manufactur-

ing and mercantile returns, provided that one-third of the revenue so derived should be distributed among the subsidiary local governments on the basis of location of the corporations' tangible personal property. The personal income tax law of 1919 gave one-half of the revenue from the income tax to local governments on the basis of real estate assessments. The revenue from these taxes went entirely to localities; the franchise tax on financial institutions, which in 1926 was substituted for these two earlier taxes, made the same provision.

Present Division of Revenues

At the present time, as shown in Table 49, the local governments receive a portion of the revenue from five state taxes. One-half of the personal income tax and of the mortgage tax is divided between the cities, villages and towns according to the assessed value of their real estate. All of the revenue from the franchise tax on financial institutions and one-third of the revenue from the business corporation tax goes to cities, villages and towns, according to the location of the corporations' tangible personal property. One-quarter of the revenue from the motor vehicle license charge is paid to the counties where the vehicles were registered. The localities also received a small distributive share of the revenue from the license tax on real estate brokers and some other minor taxes.

TABLE 49: LOCAL APPORTIONMENT OF NEW YORK TAXES
(National Industrial Conference Board)

Tax	Basis of Apportionment	Per Cent Apportioned to Localities	Districts Participating in Apportionment
Bank stock and moneyed capital[1]		100	Cities, villages and towns
Financial institutions....	Locations of principal office	100	Cities, villages and towns
Personal income........	Assessed valuation	50	Cities, villages and towns
Mortgage.............	Location of property	50	Cities, villages and towns
Business corporations....	Location of property	33⅓	Cities, villages and towns
Motor vehicle license charge...............	Collections	25	Counties

[1] Repealed.

Table 50: Distribution of State Taxes to Localities, Fiscal Years 1917 to 1926

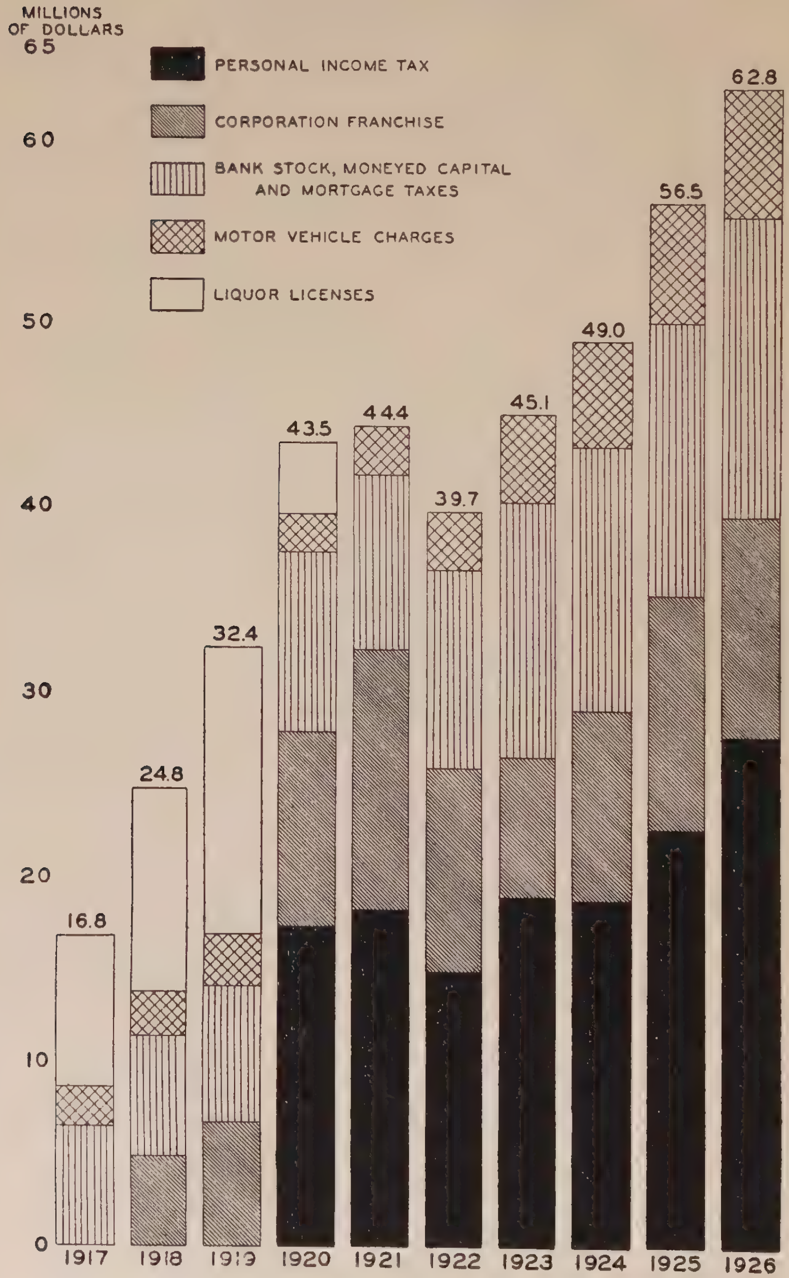
(Source: Annual Report of the State Tax Commission, 1926, Table 5, pp. 78–81)

Taxes	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
Personal income tax	..	..	..	$17,321	$18,218	$14,835	$18,885	$18,615	$22,511	$27,453
Business corporations franchise tax	..	$4,917	$6,682	10,487	14,099	10,985	7,531	10,283	12,634	11,853
Bank stock tax	$5,322	5,584	6,079	7,032	7,300	7,461	7,412	7,621	8,298	8,767
Moneyed capital tax	..	..	..	..	..	..	2,449	1,439	947	594
Mortgage tax	1,218	876	1,294	2,713	2,229	3,266	3,878	5,146	5,383	6,848
Motor vehicle charges	2,062	2,382	2,852	2,142	2,563	3,147	4,802	5,646	6,489	6,964
Liquor license tax	8,247	11,027	15,501	3,815	..	..	..	..	..	..
Real estate brokers' license tax	..	..	..	..	..	..	169	215	230	337
Billiard rooms license tax	..	..	..	..	..	..	15	15	15	15
Total	$16,849	$24,786	$32,408	$43,510	$44,409	$39,694	$45,141	$48,980	$56,507	$62,831
Percentage Distribution										
Personal income tax	..	..	..	39.8	41.0	37.4	41.9	38.0	39.8	43.7
Business corporations franchise tax	..	19.9	20.6	24.1	31.8	27.7	16.7	21.1	22.4	18.9
Bank stock tax	31.6	22.5	18.8	16.2	16.4	18.8	16.4	15.6	14.7	14.0
Moneyed capital tax	..	..	..	..	..	..	5.4	2.9	1.7	.9
Mortgage tax	7.2	3.5	4.0	6.2	5.0	8.2	8.6	10.5	9.5	10.9
Motor vehicle charges	12.2	9.6	8.8	4.9	5.8	7.9	10.6	11.5	11.5	11.1
Liquor license tax	49.0	44.5	47.8	8.8	..	..	..	..	..	..
Real estate brokers' license tax	..	..	..	..	..	..	.4	.4	.4	.5
Billiard rooms license tax	..	..	..	..	..	..	[1]	[1]	[1]	[1]
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	10.00

[1] Less than .05%.

CHART 10: LOCAL TAX RECEIPTS FROM STATE LEVIED TAXES, 1917 TO 1926

(National Industrial Conference Board)



The amounts of revenue derived by the local governments from these taxes during the period 1917 through 1926 are shown in Table 50 and in Chart 10. In 1917, this distributed revenue, derived from the liquor excise, the mortgage tax, the bank stock tax and the motor vehicle license charge, amounted to $16.8 millions, or 5.5% of the $301.3 millions of local tax revenue collectible in that year. In 1926, the local governments were deriving $62.8 millions of revenue from the income tax, the corporation franchise tax, the bank stock and monied capital tax, the mortgage tax, the motor vehicle license charge, the real estate brokers' license tax and other taxes, and this equaled 10% of the $629.6 millions of local tax revenue of that year. This distributed local revenue has shown a definite tendency to increase more rapidly than the revenue which the local governments receive from the general property tax. Inasmuch as real property in New York is bearing what might be considered a maximum rate of tax, and legislative efforts are being directed to obtain the additional revenue needed from other sources, it is to be anticipated that this proportion will increase in the future.

Bases of Distribution

The localities' share of these taxes might be distributed among them on several different bases. One method would be to return to each locality the taxes actually collected within that locality, as is done with the motor vehicle license charge. The second method would be to distribute this revenue among the localities on some presumptive basis of collection—the location of specific properties or the general assessed value of real property. Such presumptive bases of distribution are used for the other four distributed New York taxes. The third method would be to ignore the actual or presumptive points of collection and to distribute this revenue among the local governments on the basis of relative need, thus making the richer communities contribute somewhat to the support of the poorer communities.

The Special Joint Committee on Taxation and Retrenchment criticizes sharply New York's present system of distribution of revenue.[1] It points out that cities and towns

[1] New York Legislative Document, 1925, No. 97, p. 64.

which contain villages benefit most from division of state tax money, in that such receipts constitute a higher percentage of the local tax revenue in these districts than in other governmental units. Villages, on the other hand, are least aided by the distribution of state tax funds. Moreover, inasmuch as the present method of apportionment tends on the whole to return the receipts of state taxes to the communities from which they come, there is a tendency to favor the wealthier cities as against the poorer cities and to benefit cities in general as against the towns and villages; this tendency is aggravated by the use of assessed valuation as a basis of distribution. The Special Joint Committee feels that the use of a presumptive index of collections as a basis for distribution fails to distribute the tax revenue according to actual collections and that, insofar as it varies from this standard, its variation tends to be regressive, favoring the wealthier as against the poorer communities. The Special Joint Committee would apply the principle of division of revenues only to those taxes which can be distributed on the basis of actual collection, such as the mortgage registry tax and the motor vehicle license charge. In the case of taxes like the income and corporation franchise tax, it would discard the principle of division of revenues altogether and instead reimburse the local governments by the method of state aid, which can take the relative needs of the communities into greater consideration.

In this criticism of the present system of division of revenue the Special Joint Committee overlooks one rather important item. The method of distributing revenue from state taxes on the basis of assessed valuations has the effect of raising the ratio of assessment. For some time the local governments seem to have overlooked the fact that a more careful assessment procedure and a higher ratio of assessment would bring them a larger proportion of the local share of these state taxes. There is evidence, however, that local communities now realize the full significance of this arrangement and that there is the beginning of a tendency for a competitive raising of assessments instead of the usual competitive underassessments.

Some individuals oppose any centralization of the assess-

ment process in the counties on the ground that in a short time it will no longer be necessary, that with a further enlargement of the division of revenues on the basis of assessed valuations it will be so much to the interest of local assessors to bring their valuations up to full value that even township assessors will set about accomplishing this desired result. This optimistic view is unquestionably exaggerated and the benefits from the county centralization of assessment are too definite to be waived for the more uncertain improvement that may come through the influence of this method of division of revenue. The beneficial influence of this method of distribution cannot be denied, however, and should be set over against the unfavorable discriminatory effects noted by the Special Joint Committee.

Division of Highway Revenue

In New York, the revenue from motor vehicle license charges is divided between the state and counties, three-fourths going to the state and one-fourth to the counties. Other local governments receive no share of this highway revenue.[1]

This arrangement works little, if any, hardship upon towns and villages, since they receive benefit from the construction of highways and roads by the state and by the counties through improvement of their means of communication. Automobile owners living in villages make at least a proportionate use of state and county roads which their license charges have helped to build and maintain. However, this arrangement works an injustice upon the cities, which at present (with the exception of New York City) receive no part of the highway revenue. The development of heavy automobile traffic has resulted in additional heavy expense to the cities; they have had to repave their streets at considerable expense to meet the requirements of automobile traffic. Moreover, a considerable proportion of city traffic, particularly in the large cities, is essentially intra-urban. Whole fleets of trucks and cabs operate throughout

[1] New York City obtains a considerable share of the highway revenue since its five counties are all within city's limits. Buffalo, Rochester and other cities, however, are not in the same fortunate situation.

their lifetime on the cities' streets without ever passing their boundaries. The cities bear the costs and expenses of this traffic. The state and the counties derive the revenue therefrom, while the cities have no share in it. Against this must be set the heavy use which city dwellers make of state and county roads. The ultimate disproportion, however, discriminates against the cities.

New York State is not unique in thus depriving cities of any share in the highway revenue. The Highway Finance Committee of the National Tax Association has pointed out the injustice of this arrangement.[1] The Special Joint Committee on Taxation and Retrenchment also considers it a sharp injustice. It feels that the cities and villages should be given one-fourth of the revenue from the motor vehicle license charge and from any gasoline tax that may be provided for in the future.[2]

State Aid

The last fiscal relationship of state and local governments to be considered is that of state aid or subventions to localities for particular purposes. New York State makes grants to local governments for two purposes—for highway construction and maintenance and for school purposes.

Statistics of State Aid in New York

Table 51 shows the development of the principle of state subventions in New York from 1917 through 1926. In the former year, the state paid $8.8 millions to the local governments. In 1926, state aid totaled $48.6 millions, a growth of 455.4% over the ten-year period. The greater part of this large increase resulted from the growth of school subventions; the cities and school districts received $33.8 millions more in state school aid in 1926 than in 1917.

The $8.8 millions of state aid to localities in 1917 represented 11.3% of the $77.3 millions of total state expenditures in that year. In 1926, the proportion of state aid to state expenditures was 26.2%. It should be noted, however, that during the second half of this decade the proportion of state

[1] *Public Roads*, Vol. VI, pp. 233 ff.

[2] New York Legislative Document, 1925, No. 97, pp. 92–93.

aid to the total of state expenditures tended to decrease rather than increase. This is clearly indicated by the divergent slant of the lines on the logarithmic scale of Chart 11. In 1922, the proportion was 29.1%, in 1923 it was 30.5%, a year later it had fallen to 27.8%, and in 1925 it was down to 21.6%. The reason for this decrease is not any falling off in the actual amounts of state aid; every year has seen an increase of this item. Rather during these last few years the state expenditures for other purposes have been increasing more rapidly than the items of state aid. Consequently the relative proportion of these items has decreased.

TABLE 51: STATE AID, FISCAL YEARS 1917 TO 1926

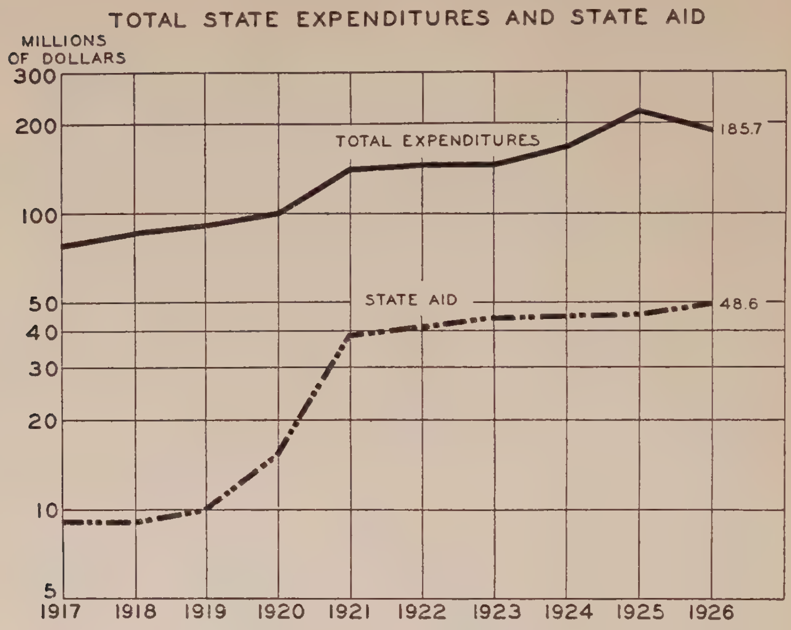
Years	Net Total State Expenditures (Thousands)	Total[2] State Aid (Thousands)	Per Cent State Aid to Total State Expenditures	Local[3] School Expenditures (Thousands)	State[3] School Aid Received (Thousands)	Percentage—State School Aid to Local School Expenditures	County[4] and Town Roads Expenditures (Thousands)	State[5] Road Aid Received (Thousands)	Ratio (Per Cent) of State Road Aid to County and Town Road Expenditures
1917	$77,285	$8,755	11.3	$75,301	$7,516	10.0	..	$2,000	[1]
1918	84,951	8,756	10.3	80,241	6,713	8.4	[1]	2,095	[1]
1919	90,375	9,875	10.9	[1]	[1]	[1]	[1]	2,150	[1]
1920	98,588	15,214	15.4	105,144	12,445	11.8	[1]	2,302	[1]
1921	136,847	37,757	27.6	162,266	33,094	20.4	$18,696	4,350	23.3
1922	141,870	41,280	29.1	[1]	[1]	[1]	22,447	4,706	21.0
1923	142,431	43,487	30.5	203,052	36,721	18.1	14,294	4,916	34.4
1924	162,156	45,069	27.8	242,455	38,354	15.8	24,400	4,884	20.0
1925	214,767	46,378	21.6	274,069	39,463	14.4	36,880	5,004	13.6
1926	185,672	48,628	26.2	246,450	41,322	16.8	..	5,097	..

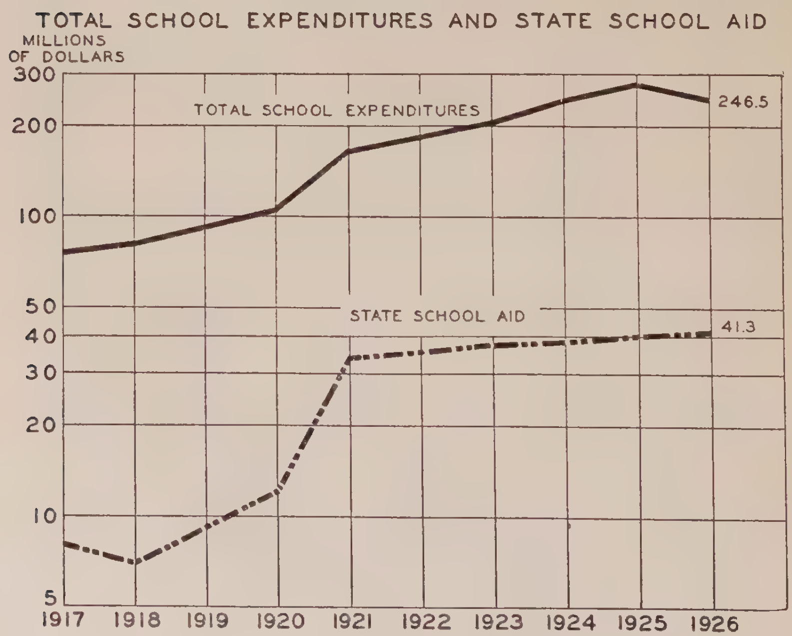
[1] Comparable figures not obtainable.
[2] From Annual Report of State Tax Commission, 1926, p. 83.
[3] From Annual Reports, State Department of Education.
[4] Data from United States Department of Agriculture, Bureau of Public Roads.
[5] Figures obtained by subtracting school aid figures, secured from Annual Reports of the State Tax Commission, from total state aid.

A similar phenomenon is to be noted when state aid for schools is compared with the total of local expenditures for schools. Between 1917 and 1921, the proportion of total local school expenditures represented by state aid increased from 10.0% to 20.4%. During the years after 1921, the amount of state aid for schools increased with every year, but the total of local expenditures for schools increased more rapidly. In 1923, the proportion was 18.1%, in 1924 it was 15.8%, in 1925 it was 14.4%, and in 1926 it was 16.8%. The

Chart 11: Development of State Aid, 1917 to 1926

(National Industrial Conference Board)





divergent slant of the lines on the lower logarithmic scale of Chart 11 illustrates this tendency.

The Theory of State Aid

The principle of state subventions to localities for specific purposes is too new in the history of public finance for any body of doctrine to have grown about it. There is sufficient accumulation of data, however, to permit certain broad generalizations.

In the first place, it should be recognized that the principle of state aid represents a collapse of older rigid ideas of the self-sufficiency of local action. A generation or two ago, it would have been considered heretical to suggest interference by the state in the activities of villages, cities and towns; at the most, a slight administrative supervision and the setting of standards, which the localities could follow or discard as they choose, would have been permitted. Social and industrial progress has run ahead of the old idea of local rights and local self-sufficiency. In practically every state, the state government is now considered within its sphere when it sets definite standards and makes specific regulations more or less binding upon the local governments in the matters of education and road building. In many states the state government has similarly intruded upon the local administration of social welfare projects.

State aid has been one of the most effective elements in this expansion of state control. If the state gives money, it can make provisions as to how that money is to be used. It can go even further, it can set certain standards of local activity which must be achieved before any money is to be given.

There is both an advantage and disadvantage in this development of state control through state aid. On the one hand it means that all local governments must measure up to a certain minimum standard. Left to themselves, indifference, ignorance and inertia might result in reprehensibly low levels of accomplishment. State control, accomplished through the desire of the localities to share in the state monies, offsets such local indifference and inertia. However, local districts differ widely in their fiscal capacity. A school

program that would put no burden upon a rich suburban community might strain to the breaking point the resources of a poor rural district. If state aid is used as an incentive to local activity, the minimum standard may be so high as to injure the poorer local districts. If they do not meet this standard, they find themselves excluded from any share in the state fund to which their taxpayers have contributed. If they meet this standard, they can do so only by bleeding themselves with high taxes. Individual cases could be cited in New York, more frequently a few years ago than at present, where the distribution of state school aid had this effect.

The Bases of State Aid

In general there are three principles of state aid—supplementary distribution, small fund distribution and large fund distribution. Supplementary methods of distributing state funds are those which give flat or proportionate amounts to the various districts irrespective of their needs and set no standards for their activities. Giving school funds on the basis of school enrollment or highway aid on the basis of area would be examples of supplementary aid. The supplementary method of distribution has historical precedence over the other two methods, but it has little, if anything, to recommend it. It relieves the burden on the local districts, it is true, but it offers no guarantee of improvement through local stimulation or through special assistance to weaker or poorer districts.

Where the state has only a small fund at its disposal, the best effects can be obtained by distributing it so as to *encourage* local activity, whether it be in the field of road construction and maintenance or in the field of education. Where the state has a large fund at its disposal, it can use a part of this fund to *equalize* between richer and poorer districts, supplementing the deficiencies of the latter. The failure to recognize this distinction has been responsible for many of the blunders in the use of state aid in the past. Few states started out with large distributive funds at their disposal. They had small funds to begin with and, wisely, they sed them to encourage and stimulate the local districts.

With the years and with the growing support of the doctrine of state aid, the relative significance of these distributive funds has increased. The change of policy that should have occurred, in many cases did not develop.

New York State aid has now reached the large fund stage. There is no absolute ratio which can be set as the determining line between the large fund and the small fund stage of state aid, but when these subventions amount to from 10% to 15% of the local expenditures for the purpose, to use them entirely as stimulants is a waste of possibility. While the element of stimulation must never be lost sight of, even with large funds, it can become a subordinate element. A portion at least of such large funds can be used to make up deficiencies of poorer districts. New York has recognized this factor in its distribution of school aid,[1] and is expending an increasing proportion of its state school funds for equalization purposes. Too much of New York's state highway aid is still being distributed on bases which take no cognizance of the relative abilities of the localities that receive it.

State School Aid

The compensation basis of school aid is still widely found in the western states.[2] Enumeration—that is, a distribution of state aid according to the number of children reported by the school census—is the most popular basis of supplementary distribution, but "aggregate attendance," "average daily attendance," the district or school, and the number of teachers in the district are found as variants of the supplemental system. However, in many states which use these bases, a minimum standard of education must be achieved by the district before it can receive its share of the state school aid. This merges a supplementary system into the system of small fund encouragement.

New York's system of state school aid has not been a planned development but has resulted from disconnected and coördinated modifications over a period of years, dictated by the exigency of particular situations at particular

[1] See p. 14 of this volume.

[2] National Industrial Conference Board, "Cost of Government in the United States, 1925–1926," p. 169; see also Table 64 of this volume.

moments. State school aid in New York is now distributed on thirteen independent bases. These are: (1) the individual school district (subject to the qualification that no district quota is given when the district does not either employ a teacher or contract with some other school district for the education of its pupils); (2) the employment of a superintendent; (3) the number of licensed teachers employed; (4) the population of the district; (5) the assessed valuation of property of the district; (6) the maintenance of a high school (taking into account length of the high school course); (7) the number of non-resident students attending the high school; (8) the aggregate daily attendance in the high school; (9) and maintenance of a teachers' training class; (10) the aggregate daily attendance in training schools; (11) the amounts spent for books, apparatus, etc.; (12) the length of the school term; (13) the salary of the teachers.[1]

It should be noted that New York's system of state school aid combines all three principles of distribution. Such bases as the school district *per se* and the employment of superintendents are essentially supplementary. Payments based on the salary of teachers, length of the school term, maintenance of a teachers' training class, etc., are based on the small fund principle of encouragement. Contributions based upon the assessed valuation of property in the district have primarily an equalizing effect.

The Special Joint Committee criticizes this system as being "so complicated that even those who are charged with the details of its administration testify that it is in some cases impossible to carry out the provisions of the law or even completely to understand them."[2] The Committee charges the system with accomplishing almost nothing at all in the way of equalizing educational opportunity throughout the state. It should be noted, in considering the Special Joint Committee's criticism, that in the relative amount of state school aid provided for, the school aid program of the state developed from a small fund to a large fund basis within the past ten years. Under the older small fund sys-

[1] George D. Strayer and Robert Murray Haig, "The Financing of Education in the State of New York," 1923, p. 98.

[2] New York Legislative Document, 1925, No. 97, p. 28.

tem, the state's aid could be used most effectively to encourage the districts along particular lines, such as payments for teachers' salaries, purchase of text books and materials, teachers' training, etc. The change in the character of its distributive school fund has come upon New York so suddenly and the theory and principles of school fund distribution are so poorly understood by students and laymen alike, that it is not surprising that the New York legislature should have overlooked the full significance of these changes in the character of state school aid.

New York has been distributing a large school fund for ten years. It has had time to check up upon the effects and the errors of its system of distribution, and these have been pointed out in no uncertain terms by private scholars and official committees. Now that it has the funds at its disposal and there is every reason to believe that sufficient funds will continue to be at its disposal, the state should revise and possibly simplify its system of school aid distribution.

State Highway Aid

The same criticism as that made of New York's distribution of school aid can be made of its distribution of highway aid. In relative amount New York's state highway aid has now reached the large fund stage but is still being distributed according to small fund principles. The Special Joint Committee on Taxation and Retrenchment finds that the wealthier counties receive the greater benefit under the present system of distribution, that two-thirds of the counties which fall below the median in taxable wealth per mile of highway also fall below the median in the per cent which state aid forms of town highway expenditures.[1] This is to be expected, of course, since the state highway aid is being used to encourage the towns and counties in the construction and maintenance of their roads, and it is the richer counties which can do the most building and hence have the greatest claim on state aid.

It is more difficult to construct a basis of highway aid distribution that will equalize between richer and poorer

[1] New York Legislative Document, 1925, No. 97, p. 51.

counties than it is to create such a basis for the distribution of school aid. The equalized assessed value per mile of road does not achieve this end in the way that equalized assessed value per school child in average attendance does, because the necessity for additional highway expenditures, particularly construction expenditures, is not directly related to miles of road already built or to the character of the roadways constructed. Equalized assessed value per capita is the factor that probably should be given some, though not dominant, consideration.

As in the case of school aid, of course, the state highway aid fund can not be used entirely for equalization purposes. It is advisable always that some part of the fund be so distributed as to encourage local activity.

CHAPTER X

GENERAL SUMMARY AND CONCLUSIONS

THIS chapter presents a summary of the main issues considered in this study, divorced from related and subsidiary problems.

Public Expenditures

A summary of the factual data on New York's state and local expenditures is presented in Table 52. Total expenditures of all governmental agencies in New York State in 1917 were $469 millions. In 1925, they rose to $1,108 millions, an increase of 137% in eight years. Of this increase, approximately two-fifths resulted from the decreased purchasing power of the dollar. An additional one-twelfth to one-fifth increase of New York's public expenditures may be allowed as a normal accompaniment of growth of population and resources. The remaining sixty odd per cent of the increase between 1917 and 1925 must be attributed to an additional qualitative increase and expansion of governmental functions and to possible elements of extravagance and inefficiency in the conduct of governmental functions.

The local expenditures of New York City dominate the combined state and local expenditures of New York State. In 1917, the local expenditures of New York City were 54% of the combined state and local total; in 1925, they constituted 47% of that total. This fiscal preponderance of New York City results mainly from the fact that this one city performs the functions of local government for over half the population of the state; moreover, the per capita expenditure of New York City in 1925 was $77.55, whereas the per capita local expenditure in that year for the rest of the cities was $56.71. During this period there was a well-defined tendency for the expenditures of the other local governments to increase more rapidly than those of New York City. The

Table 52: New York State and Local Expenditures, Summary, 1917 to 1925

(National Industrial Conference Board)

Measures, Disbursing Agents and Purposes of Expenditures	1917	1918	1919	1920	1921	1922	1923	1924	1925
Total Gross Expenditures									
Total gross expenditures—actual dollars (thousands)	$468,555	$483,413	$510,345	$603,312	$700,821	$797,146	$867,073	$979,152	$1,108,227
Total gross expenditures—"1917" dollars (thousands)	468,555	437,153	424,672	440,960	516,563	659,568	686,342	749,803	843,591
Per capita expenditures—"1917" dollars	46.59	42.90	41.15	42.17	48.73	61.39	63.04	67.98	75.58
Expenditures per gainfully employed—"1917" dollars	107.00	98.68	94.77	97.26	112.54	141.93	145.97	157.59	175.46
Proportion of state income represented by state and local gross expenditures	6.1%	5.5%	5.2%	5.4%	7.9%	8.6%	8.6%	9.6%	10.0%
Percentage Distribution According to Disbursing Agents									
State	16.5	17.6	17.7	16.3	19.5	17.9	16.7	16.6	19.6
Counties	4.4	4.1	4.2	4.5	5.3	4.8	5.0	5.6	5.3
Towns	3.1	3.1	3.5	3.6	3.9	3.5	4.0	4.2	4.0
New York City	54.1	52.8	50.8	51.2	47.5	49.8	49.5	49.7	47.2
All other cities	16.3	16.6	18.3	18.5	17.7	18.0	18.2	16.9	16.9
Villages	2.6	2.5	2.3	2.4	2.5	2.5	2.6	2.7	2.7
School districts (outside of cities)	3.0	3.3	3.2	3.5	3.6	3.5	4.0	4.3	4.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage Distribution According to Purpose of Expenditure									
General government	8.6	8.7	8.4	8.2	7.9	7.1	6.9	6.4	6.2
Protection and regulation	10.6	12.0	12.0	11.0	10.5	10.4	9.9	9.7	12.7
Education	15.8	16.4	17.3	18.4	19.8	21.1	20.6	19.2	18.2
Highways and streets	7.0	6.5	7.4	7.8	7.9	6.2	7.4	6.5	6.4
Charities, hospitals and corrections	7.6	8.7	8.8	8.3	8.1	7.4	6.8	6.5	5.9
Sanitation and reservation of health	4.5	4.8	5.1	5.2	5.4	5.0	4.8	4.7	4.7
Recreation	1.1	1.1	1.2	1.2	1.1	1.1	1.1	1.0	1.0
Economic development	.4	.4	.5	.6	.7	.4	.6	.6	.5
Miscellaneous	.6	.7	.5	.5	.5	.5	.5	.5	.4
Total maintenance	56.2	59.3	61.2	61.2	61.9	59.2	58.6	55.1	56.0
Capital outlay	14.6	12.8	12.5	13.0	15.9	16.6	18.8	24.5	24.1
Interest	12.8	13.4	13.4	11.9	10.6	10.7	10.1	9.2	8.8
Total net	83.6	85.5	87.1	86.1	88.4	86.5	87.5	88.8	88.9
Public utilities, capital	3.1	1.7	1.1	1.9	2.4	2.9	3.0	3.3	3.1
Public utilities maintenance	4.8	5.0	4.6	4.3	4.0	3.9	3.9	3.6	3.5
Debt redemption	8.5	7.8	7.2	7.7	5.2	6.7	5.6	4.3	4.5
Total gross	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

expenditures of the state government increased most rapidly of all.

Education is the largest single item on the combined state and local budget in New York, and it is a growing one. In 1917, $74 millions, or 16% of the total combined state and local expenditures, were for schools and school purposes, as compared with $202 millions, or 18% of the combined total, expended for such purposes in 1925. Fire and police protection and regulatory activities constituted the next most important item of expenditure, absorbing 11% of the combined total in 1917, and 13% in 1925. Highways and streets, charities,, and the general overhead of government, each accounted for from six per cent to eight per cent of the combined total.

Growth and Control of Expenditures

The growth of public expenditures that normally accompanies increases in population and economic and social development is inevitable. The growth of public expenditures through a broadening of the scope of governmental functions is a matter of legislative, not fiscal, judgment, as long as this expansion of the functions of government does not outrun the resources of the state. Such part of the growth of public expenditures as is due to waste and extravagance in the conduct of government, however, should be checked by remedial and preventive provision. There are two possibilities of checking wasteful and extravagant public expenditures—by such revision of state and local governmental activities as will eliminate duplication of effort and promote efficiency, and by centralization and systematic supervision of local expenditures, particularly those of a capital nature.

This study does not consider in detail the question of the reorganization of state and local government. On this subject reference is made to the analysis and recommendations of the Special Joint Committee on Taxation and Retrenchment made in its 1923 report. Few will deny that there is much room for improvement of organization in the present governmental system of New York, particularly in the local governments. Consolidation of offices and a well-considered

program of reorganization would save the taxpayers many millions of dollars annually.

Even the most wisely managed local governments, however, sometimes embark upon ill-considered projects for capital construction. These projects are usually financed by loans and thus they do not represent an immediate burden upon the voters of the district who are therefore inclined to be liberal. Any attempt to supervise such expenditures in detail by a central body would be disastrous; the local officials who are intimately acquainted with local needs and interests must continue to determine such matters. However, it is possible to create a central body invested with the power of discretionary supervision over local capital expenditures and bond issues, particularly when appeal is made by groups of taxpayers from the districts themselves. Such centralized supervision has been tested and found successful in many states.

There are two methods of such supervision—by county bodies and by a state body, preferably the tax commission of the state. If these powers are placed in the hands of county bodies, it is essential that their members should be appointed and should be dissociated from immediate political dependence upon local districts within the counties. The advantage of such county boards of review is that they are nearer home to local needs. Their disadvantage is that they are more amenable to local pressure. The advantages of vesting this power of review in a central state body are that members of such a body are likely to possess wider technical ability and that they are more removed from local influence. The disadvantages are the size of the burden that would be put upon them and the difficulty of intimate understanding of the local issues.

One or the other method of reviewing local capital expenditures could advantageously be provided for New York State. It may be expedient as a temporary provision to restrict the review of the central supervising body to an advisory capacity. However, only a complete supervisory power located in a central board of review, operating either automatically or on appeal by interested taxpayers, can cope fully with the issue.

State and Local Borrowings and Indebtedness

There is a direct relation between the growth of capital expenditures and the tendency of state and local governments to borrow, because capital expenditures are financed for the most part out of loans instead of by current revenues. The proportion of capital to total public expenditures in New York has been increasing, until it now averages one-third of the total. This development has been reflected in increased borrowings by the state and local governments in New York, as shown in Table 53.

Because of unfavorable credit conditions and the borrowing pressure of the Federal Government, public borrowings in New York were sharply restricted during the war. They totaled only $23 millions in 1918 and $33 millions in 1919. In later years, the annual borrowings have far exceeded these figures. In 1924, $283 millions were borrowed; in 1925, $203 millions; and in 1926, $234 millions. The total for the nine-year period 1918 through 1926 was $1,206 millions.

New York City was responsible for 44.7% and the other cities for 26.9% of this total, the state government for 9.8%, the counties for 6.1%, the school districts for 5.5%, and the towns and villages for 7%. The largest single item for which loans were incurred was the construction and equipment of school buildings; this absorbed $285.4 millions during the ten years, or 24.4% of the net total of borrowings. The construction and maintenance of roads, streets and bridges accounted for $186.8 millions or 16%, and rapid transit facilities, ferries and canals for 14.1%.

New York is incurring new indebtedness more rapidly than the rest of the country. New York's per capita borrowings from 1923 through 1926 amounted to $6.76. The per capita state and local borrowings of the rest of the country during these four years were $4.33.

As a result of such rapid borrowing, New York's total of state and local bonded indebtedness has increased rapidly. In 1917, the net state and local bonded debt (sinking funds deducted) totaled $1,440 millions. In 1926, it amounted to $2,132 millions. New York City is responsible for half

Table 53: New York State and Local Borrowings and Indebtedness, Summary, 1917 to 1926

(National Industrial Conference Board)

	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Amount (in Thousands)										
State and local borrowings		$22,500	$32,981	$39,176	$183,327	$123,361	$84,053	$283,179	$202,813	$234,429
Percentage Distribution According to Borrowing Agents										
State		..	..	..	17.3	..	..	20.3	..	12.2
Counties		5.7	3.6	6.1	2.2	7.0	9.3	6.4	6.1	7.4
Towns		3.9	2.0	3.1	1.1	2.5	5.4	3.4	5.5	3.6
New York City		10.3	23.4	16.2	59.3	39.1	13.1	48.3	53.8	46.5
All other cities		68.4	65.7	57.3	16.1	40.5	51.4	14.7	24.5	21.5
Villages		9.0	3.0	9.0	1.7	3.8	7.2	2.5	4.1	3.4
School districts (outside of cities)		2.7	2.3	8.3	2.3	7.1	13.6	4.4	6.0	5.4
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage Distribution According to Purposes of Loans										
Schools	4.6	18.6	18.1	24.7	13.3	19.4	35.0	28.8	47.1	19.6
Roadways and drainage	25.8	26.8	23.8	29.9	24.5	14.7	25.0	7.5	15.3	27.8
Municipal utilities[1]	47.2	0.2	0.1	3.1	46.6	27.3	3.8	7.1	6.6	13.7
Water supply	7.5	12.7	11.1	6.8	1.9	24.9	13.6	12.7	4.4	11.9
General buildings and fire	6.1	6.8	5.8	6.0	4.0	4.2	8.7	7.2	6.2	6.1
Soldiers' bonus	..	..	..	..	..	..	..	16.3	..	..
All other	8.8	34.9	41.1	29.5	9.7	9.5	13.9	20.4	20.4	20.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Amount (in Thousands)										
Net bonded indebtedness	$1,440,261	$1,456,806	$1,450,011	$1,453,985	$1,577,460	$1,613,883	$1,708,958	$1,897,026	$2,049,969	$2,131,863
Percentage Distribution According to Borrowing Agents										
State	13.0	12.4	12.0	11.5	11.9	11.5	10.6	11.7	11.1	10.3
Counties	2.1	1.9	2.0	2.1	1.9	2.5	2.4	2.9	3.0	3.7
Towns	.4	.6	.7	.8	.7	.9	1.1	1.4	1.6	2.0
New York City[2]	72.4	73.1	72.6	72.9	72.0	69.4	69.3	66.5	53.2	51.1
All other cities[2]	9.9	9.8	10.6	10.4	11.0	12.0	12.6	12.9	9.2	9.6
Villages	1.7	1.5	1.6	1.8	1.9	2.1	2.2	2.2	2.5	2.6
School districts[3]	.5	.7	.5	.5	.6	1.6	1.8	2.4	19.4	20.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes electric light and gas, harbors and waterfronts, ferries and canals.
[2] Prior to 1925 includes school districts within cities, in 1925 and 1926 excludes these school districts.
[3] Prior to 1925 includes only school districts outside of cities; in 1925 and 1926 includes all school districts.

of this net bonded debt and the other local governments for two-fifths of the total.

New York's per capita debt in 1925 was $155.36; with the exception of Florida and California, it was the highest in the country. Among the industrial states which compete with New York, New Jersey had in 1925 a per capita debt of $127.38; Michigan, $110.36; Ohio, $102.00; Massachusetts, $85.13; Pennsylvania, $77.22; and Illinois, $57.42.

There are marked disadvantages in piling up an accumulation of state and local debt. In the first place, it narrows the credit margin that should always be maintained against emergencies, such as the rebuilding that would be necessary after a heavy flood or other natural disaster. In the second place, it is an expensive method of financing, since interest on the debt materially swells the final cost.

Control of Local Borrowings

Local borrowing may be controlled in several ways. Fixed debt limitations may be placed in the state constitution or in statutes. New York has such limitations on local borrowing—10% on cities and villages, and a flexible limitation on towns. It is notorious, however, that without the strictest supervision, local governments tend to evade such restrictions. Moreover, such restrictions often act as straitjackets on communities faced by emergencies when the raising of loans beyond the debt limitation is imperative. Excessive borrowing by local governments can be more effectively checked by a system of central control of local finances. If a central state body or if special county boards are given the power to review and disallow proposed local capital expenditures (and the bond issues to cover them), either immediately or upon appeal by taxpayers, a direct check is given to extravagance in capital expenditures and hence to the incurring of excessive indebtedness. Where such state or county boards of review are instituted, the necessity for rigid debt limitations disappears. A saving in interest costs is realized when the state government floats the loans of its local subdivisions, underwriting them with its own credit.

Finally, it should be noted that certain types of capital expenditures which extend over a period of years, such as

school building programs in growing municipalities or long-time programs of highway improvement, are more properly financed out of current revenue than by loans. These are commonly designated "recurrent" capital expenditures. If these are financed by loans, the serial repayment of the bonds or the amortization charges of the loans, if they are funded, will in time equal the year to year original cost of the project. Meanwhile the interest cost and the cost of marketing the loan are to be considered. Nothing can be gained by postponing payment. For such projects, a "pay-as-you-go" policy is desirable. This policy is particularly important in New York, where a considerable part of the recently authorized state and local expenditures are of this "recurrent" variety.

Tax Collections and the Tax Burden

As the total of state and local expenditures has increased in recent years, taxes have likewise increased, though not so rapidly, since a growing proportion of expenditures has been financed out of loans. A summary of the data on New York state and local tax collections is given in Table 54. The total of state and local tax collections in 1917 was $321 millions. In 1926, it was $789 millions. The per capita tax burden in "1917" dollars increased from $31.88 in 1917 to $52.03 in 1926. The tax burden of New York in relation to the income of the inhabitants of the state increased from 4.1% in 1917 to 7.0% in 1926.

Measured on a per capita basis, New York's state and local taxes constitute a considerably heavier burden than the average for the country. Moreover, during the past few years New York's tax burden has been growing much more rapidly than that of the rest of the country. In 1921, when New York's per capita tax was $49.16, the average per capita state and local tax of the country was $36.27. In 1925, New York's per capita tax was $62.82 and the average for the country was $42.69. The increase of New York's per capita tax during these years was 27.8%, while the increase for the country as a whole was 17.7%.

Most of the large industrial states have high per capita

Table 54: New York State and Local Tax Collections, Summary, 1917 to 1926

(National Industrial Conference Board)

Measures, Receiving Agents and Taxes	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Total Tax Collections										
Total tax revenue—actual dollars (thousands)	$320,603	$357,533	$391,735	$466,456	$521,109	$588,936	$601,022	$643,364	$701,197	$789,348
Total tax revenue—"1917" dollars (thousands)	320,603	315,035	308,477	320,721	370,264	477,258	471,834	496,691	535,674	588,100
Per capita tax—"1917" dollars	31.88	30.92	29.89	30.67	34.93	44.42	43.34	45.03	47.99	52.03
Tax burden per gainfully employed—"1917" dollars	73.21	71.11	68.84	70.74	80.67	102.70	100.35	104.39	111.41	120.93
Proportion of state income taken by state and local taxes	4.1%	4.1%	4.0%	4.2%	5.9%	6.4%	6.0%	6.3%	6.4%	7.0%
Percentage Distribution According to Receiving Agents										
State	17.6	19.3	18.7	23.6	26.8	19.7	20.2	21.5	21.6	21.0
Counties	5.7	5.6	5.5	5.1	4.7	4.9	4.9	5.0	4.9	5.2
Towns	3.7	3.7	3.6	3.7	3.6	3.3	3.4	3.5	3.6	3.6
New York City	55.1	52.1	52.1	48.2	44.5	53.4	51.6	49.9	48.4	49.5
All other cities	12.0	13.1	14.2	13.7	14.3	13.0	13.9	13.8	14.9	14.2
Villages	2.1	2.0	1.9	1.8	1.9	1.8	1.9	2.0	2.1	2.1
School districts (outside of cities)	3.8	4.2	4.0	3.9	4.2	3.9	4.1	4.3	4.5	4.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage Distribution According to Type of Tax										
General property tax	80.2	79.0	78.0	72.1	75.2	77.6	76.6	77.4	75.2	75.0
Auxiliary property taxes	4.5	3.5	3.9	4.6	3.2	3.7	4.1	3.9	4.4	4.9
Corporation taxes	4.5	7.6	8.6	9.6	10.4	8.8	7.3	8.1	8.9	8.4
Personal income tax	..	..	..	6.8	6.3	5.1	6.0	4.2	4.6	5.2
Inheritance tax and state duty	3.8	2.9	3.2	4.2	3.1	2.6	2.8	2.9	3.2	2.8
Motor vehicle license charges	1.2	1.3	1.4	1.7	1.8	2.2	3.1	3.4	3.6	3.6
Liquor license tax	5.8	5.7	4.9	1.0	..	..	..	..	..	..
Miscellaneous	[2]	[2]	[2]	[2]	[2]	[2]	.1	.1	.1	.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes mortgage, secured debts, investment, bank stock, moneyed capital and stock transfer taxes.
[2] Less than .05%.

taxes. Comparison of New York with these states, however, shows that New York's per capita tax was exceeded only by New Jersey, whose per capita tax in this year was $63.22. In Massachusetts the per capita tax for the year was $60.20, in Minnesota $54.36, in Michigan $51.28, in Wisconsin $50.50, in Pennsylvania $39.94, in Indiana $46.54, in Ohio $42.96, and in Illinois it was $41.04.

Significance of the Increase in New York's Tax Burden

All elements of the New York governmental system—the state, the counties, the cities and villages, the towns and the school districts—have contributed to this increase. The rate of increase has been greatest for the state government and the school districts, and smallest for the large cities.

The greater part of New York's state and local tax revenue is drawn from the general property tax. As new sources of revenue have been added to the tax system in recent years, and as other already existing taxes have been broadened, the proportion of revenue drawn from the general property tax has tended to decrease. In 1917, the $289 millions derived from the general property tax represented 80.2% of the total state and local revenue. The $594 millions of general property tax revenue in 1926 was 75% of the year's state and local tax revenue. The point to be emphasized is that three-quarters of New York's tax revenue are still derived from its property tax.

The next largest item in New York's tax system is the group of corporation taxes which contributed 8.4% of the 1926 tax revenue, and will show an even larger proportion for 1927 and thereafter, when the figures for bank tax collections will be included in the statistics for this group. The revenue contributed by the personal income tax has varied with the rates of the tax and with business prosperity and depression in New York. The year of peak yield was 1926, when $41 millions were obtained from this tax. The inheritance tax and estate duty yielded $22 millions in 1926, but their future yield will be greater when the full effect of the increased rates of the estate duty under the 80% credit of the federal tax make themselves felt.

Of course, it is the tax systems of the local governments that throw so large a portion of governmental financing in New York on the general property tax. Over ninety-five per cent of the county tax revenue is derived from this tax, and the proportion in the case of cities and villages is almost as large. In the case of the towns, nearly three-fourths of their revenue comes from this source. Only the state government has liberated itself from an absolute dependence on the general property tax, but even here it is still a significant element in the tax system and has contributed about one-fifth of the state's tax revenue in recent years.

The Farm Tax Burden

The farmers of New York are already bearing a disproportionately heavy tax burden. In a sample group of rural districts, farm taxes doubled during the years 1914 to 1924. This doubling of farm taxes during these years did not result from any marked increase of farm acreage, but was effected through the combination of higher assessment ratios and higher general property tax rates. The greater part of this increase in the farm tax burden resulted from the expansion of town levies which constituted 45% of the total farm burden in 1924. County taxes, which represented nearly one-fourth of the farm tax burden, increased 192% from 1914 to 1924.[1]

The prices of agricultural products increased very rapidly up to 1920; in fact they increased more rapidly than farm taxes. Since the expenses of agricultural production also increased during this time, however, it is probable that even during these years the increase in farm income lagged behind the increase in farm taxes. In 1921, farm prices declined sharply, and by 1924 were more or less back to a pre-war level. With farm taxes increasing after 1921, and farm prices and farm income declining, the burden of farm taxes during these years increased rapidly. During the past few years, taxes have come to be felt in many portions of this state as a crushing burden on the agricultural community.

It is difficult to make any direct comparison between the tax burden upon farmers and that upon other elements of

[1] In the districts studied in this volume.

the community because of the scarcity of statistical material. All available evidence, however, indicates that the farmers of New York are considerably overtaxed as compared with other taxpayers in the state. Future revisions of the New York tax system, should therefore lay no additional tax burden upon the farmers until they are placed on a parity with other economic groups. Practically the only tax paid by the farmers is the general property tax. Therefore, every effort should be made to relieve the general property tax burden by drawing from other sources such increased revenues as are necessary. Moreover, since the local governments are responsible for the greater part of local expenditures and taxes, and since these governments are almost exclusively dependent upon the general property tax for their tax revenues, the question of distributing to the localities some portion of the revenues collected by the state from its taxes should be given consideration.

The Tax Burden on Mercantile and Manufacturing Establishments

The second element that must be given special consideration in planning for future tax developments is the tax burden on business enterprise. Individual or partnership enterprises are taxed under the general property tax and their income is taxed to the owners or partners as personal income. Corporate enterprises are also taxed under the general property tax, but the total of their profits is not taxed to their shareholders as income, since a large part of it is never distributed in dividends. Therefore, corporate industrial and mercantile enterprises pay a special series of corporation taxes—4½% on their net income if this income exceeds $2\frac{2}{9}$% of their invested capital, or one mill on their invested capital if their profits fall below this ratio, with a minimum tax of $10.00 in either case. The result of these special corporation taxes is that the taxes upon corporate business concerns take considerably more of the net income of these enterprises than do the taxes on unincorporated concerns. The business tax problem in New York, therefore, relates particularly to incorporated business establishments.

With regard to its corporations, New York must be

counted among the heavier-taxing industrial states. Business enterprise is a very fluid element. While industries are not usually moved outright from state to state to take advantage of slight differences in the tax burden, new factories may be located in one state rather than in another in view of differences of the tax burdens in the two states. It is also true that in many cases the decision is made to abandon an old factory in a high-tax state and establish a new one in a low-tax state instead of remodeling and renewing the old factory. While differences in relative tax burdens are not the only factor that might induce business establishments which would otherwise have located in New York to locate in New Jersey, Pennsylvania or other lower-taxing states, they are certainly an important consideration. Further increases of the already heavy tax burden on corporate industry in New York would emphasize this tendency.

The two types of taxes that bear most heavily upon incorporated business enterprise are the general property tax and the group of corporation taxes. It has already been pointed out that it would be unwise to increase the rates of the general property tax in New York because of its effect upon the farmers of the state. Any addition to the general property tax burden in New York would also have the effect of markedly increasing the burden upon incorporated business enterprise. It is self-evident that any increase of the corporation taxes would have the same effect.

Proposals for Tax Revision

In its present form, New York's tax system is capable of improvement which will both add to its revenue-producing capacity and lessen or eliminate specific abuses.

General Property Tax Assessment

Inasmuch as the general property tax is the most important element of the New York tax system, special attention should be given to the assessment and collection procedure of this tax. At present the town is the basic unit of property tax assessment in New York. This is in line with long-established historical tradition and is consonant with

the sentiment for local home rule in fiscal and governmental matters. The town assessment process, however, results in inequality of assessment ratios as between individual properties, with consequent inequalities of the tax burdens on such properties. So marked are these inequalities of town assessments that they make fair equalization difficult, if not impossible.

The cities of the state assess and levy their property taxes independently of the town system, and they have developed assessment systems considerably superior to the town process. The villages of the state have recently been authorized to make separate assessments for their own taxes, but these separate village assessments have shown no improvement over the town system. Centralization of the assessment process in appointed county officials is viewed as a possible solution of this problem. The advantages of county assessment are, first, that the assessor's office is removed from the influence of the assessor's immediate neighbors and electors and, second, that the magnitude and continuity of county assessment make possible the maintenance of a permanent salaried staff that can develop skill and technique in its task. There is the possibility, however, of a corresponding centralization of political manipulation.

County centralization of assessment, however, would require a constitutional amendment, and at the best it is hardly possible of immediate realization. Meanwhile, the Special Joint Committee on Taxation and Retrenchment makes two pertinent proposals for improving town assessment. In the first place, it suggests that the State Tax Commission should provide technical assistance to the local assessors in evaluating special types of property, particularly public utility property. In the second place, it suggests that the county clerks should be required to keep full record of pertinent information upon the sale of real estate within the county for the use of the town assessors and to guide county equalization.

The Special Franchise Tax

In connection with the assessment and taxation of real estate, it is seriously to be questioned whether the special

franchise tax, which treats the special franchise values of public utilities as real estate and assesses and taxes them as such, has not been productive of greater abuses than benefits. The evaluation of these special franchise values at the best is largely haphazard. It is generally recognized that this law has been productive of much injustice and administrative difficulty. The Special Joint Committee on Taxation and Retrenchment believes that this tax should be abolished and that the loss of revenue involved should be covered by a new public utility tax or by the increase of the rates of the existing ones. It feels, however, that, since these special franchise assessments are an element in determining the debt and tax-rate limitations of New York cities, this tax should not be abolished until some provision has been made to offset the restriction of the debt and tax-rate limitations involved. It should be noted, however, that the ratio of intangible elements in the special franchise assessments to the total realty assessment in the state is only a fraction of one per cent. The normal increase of assessed values in the most sharply affected districts in any one year would more than offset any loss of assessment which would be incurred by eliminating this special franchise tax.

The Taxation of Personalty

Only tangible personalty owned by individuals is at present subject to both state and local property taxation; the tangible personalty of corporations taxed under Art. IX of the Tax Law is subject to local taxation. The tax obtained from such tangible personalty is very small, but the assessment and collection of this small amount of tax involves a marked degree of injustice. There are many counties in which hardly any personal property whatsoever is assessed; in twenty-seven counties the assessed value of tangible personalty is less than $5.00 per capita. On the other hand, in New York City it amounts to $44.00 per capita. Such assessment of personal property is arbitrary in the extreme.

Two methods of correction suggest themselves. In the first place, if taxable tangible personalty were put into a separate tax class and taxed at a low mill rate, as is done in some states, the lower rate would eliminate much of the

present injustice and by encouraging greater assessment might even be productive of more revenue. The alternative would be outright abolition of the tax on tangible personalty. The one objection to such abolition would be the loss of some six million to seven million dollars of revenue to the local governments annually. This revenue could be replaced by a very slight increase of the taxes at present distributed back to the local governments, or it could be replaced by a share in one or another of the new taxes proposed.

The Exemption of Property from Taxation

Another problem raised by the general property tax is that of exemption. It oftens happens that exempted property is concentrated within certain tax districts. This concentration narrows the local tax base in these districts and consequently raises considerably the local tax burden on the taxable property of these districts. Two solutions are proposed for this problem. The first is to limit the proportion of the real property in any district which may be exempted. The second is partially to eliminate the exemption privilege by classifying such property and making it taxable at a fractional rate. The first proposal, if adopted, would in the long run remove the worst abuse of exemption, that of sharply limiting the tax base in specific districts, but its beneficial effects would not be immediate. The second would immediately take the edge off the burdens of those communities which now find their tax bases unduly narrow; it would also check the present tendency of municipalities to locate their public institutions in other tax districts so as to keep the maximum of their own property taxable.

Taxation of Corporations

New York has achieved a wise and well-considered method of taxing its business corporations. The alternative combination of a net income tax with a capital stock tax, while unique, has the advantage of eliminating the revenue uncertainty which is a feature of a pure net income tax in view of the ups and downs of business. New York's system of taxing public utility corporations, however, is still disordered. There is no excuse for a tax based on dividends, as in the taxa-

tion of non-steam railroad companies, and light, water, gas, heating and power companies. The capital stock basis used for taxing transportation and transmission companies is also open to general criticism. The proposed abolition of the special franchise tax would provide an opportunity for revising the entire system of public utility taxation. The Special Joint Committee on Taxation and Retrenchment has made a novel but a very commendable approach to this problem by proposing a base that would combine the principles of gross-earnings and net-income taxation. It suggests that the tax be based on gross earnings and should vary from one per cent to three per cent according to the ratio of net to gross earnings. Such a tax would represent a considerable increase of the tax burden upon public utilities over the present rates. In this connection it should be noted that public utility taxes, as a general rule, are shifted to the con suming public, since such taxes are included as costs by rate commissions in determining the rates that will produce a fair profit.

There is an inexcusable lack of unity in the taxation of different types of insurance companies under New York tax laws. The reasons for this variation are largely historical, and because of indifference the situation remains unchanged. The net income tax can not be applied to insurance companies because of the wide variations that may occur in their incomes. The combined gross-income-net-income basis suggested for public utilities, however, would apply very well to the taxation of insurance corporations, though a different rate schedule would necessarily have to apply.

The Personal Income Tax

The principal question raised by New York's personal income tax is that of rate revision. The New York income tax was imposed in 1919 when the federal income tax rates were at their highest point. Had the progression of the New York tax been at all extreme, the superimposition of the two taxes would have created a confiscatory burden upon large incomes. The rates of the federal tax are now far below the 1919 schedule. This changed situation raises the question

of the advisability of raising the rates of the New York income tax to derive an additional revenue.

The justification for such an action would be the revenue necessities of the New York state and local governments. However, it should be noted in this connection that in 1922 more than one half of the entire taxable income in New York was reported by individuals having incomes under $5,000. Fourteen per cent of the taxable income in the state was reported by individuals receiving incomes between $5,000 and $10,000. The income of taxpayers receiving over $100,000 represented only 6.2% of the total. On the basis of New York's income, the tax is therefore broadest in the lower income brackets. A sharply progressive tax with high rates on large incomes might produce considerable discontent but would not result in a very great increase of revenue. Moreover, in the case of the personal income tax, there is always the danger of driving wealthy taxpayers to neighboring states which do not levy income taxes. If any increase of the personal income tax rates at the present time be considered advisable, it could be only a limited increase, and for revenue reasons it would have to apply to the lower income brackets as well as the higher ones. The personal exemption allowed under the New York personal income tax are higher than warranted by general exemption principles. Administrative considerations are against extending the rate schedule of the personal income tax to lower income brackets, but these groups would be effectively reached by an income tax filing fee of the type discussed below.

Inheritance Taxation

The main problem facing New York in its use of the inheritance tax and estate duty is the relation of the rates of these taxes to the federal estate duty. New York has so molded its system of inheritance taxation as to take the fullest advantage of the 80% credit clause of the federal estate duty. By so doing it has increased its revenue from this source. It is generally recognized that whatever may be the theory behind the 80% credit clause of the federal estate duty, it assures states like New York and others of

inheritance tax revenue which they might not be able to obtain if they had to compete with lower taxing states for the residence of wealthy individuals. The credit clause of the federal estate duty in practice assures the states of larger revenue from inheritance taxes than they could otherwise obtain. It remains a matter of opinion whether this advantage is sufficient recompense for the surrender of state fiscal independence involved.

Meanwhile, New York is one of the states that gains most under this arrangement, and has taken full advantage of it, thereby relieving other elements of the tax system—property, business, personal income—of a corresponding burden. It should be recognized, however, that the continuance of the federal estate duty with its credit clause is by no means assured. Therefore, New York should not be unprepared for the possible abolition of the federal duty and its credit clause and the consequent loss of considerable inheritance tax revenue to the state.

New Sources of Tax Revenue

The expenditure obligations which the state and local governments of New York have taken upon themselves raise the possibility that in the near future new sources of tax revenue may have to be tapped. The most important of the possible new sources of future tax revenue are a tax on unincorporated business enterprise, a tax on retail sales, an income tax filing fee, and a gasoline tax.

A Tax on Unincorporated Business Enterprise

There is a growing popular sentiment against the present tax discrimination in New York between unincorporated and incorporated business enterprises. Both the State Tax Commission and the Special Joint Committee on Taxation and Retrenchment recommend a tax on unincorporated business enterprise with a view to ending this discrimination, to make possible the abolition of the remnants of the personal property tax and to provide the state and local governments with an additional source of tax revenue.

The ideal solution of this problem would be to place a tax

on unincorporated business upon greater or less parity, as measured by net income, with the tax on incorporated enterprises. For several reasons this is not possible. In the first place, corporations are taxed one mill on their capital stock whenever the profits are less than $2\frac{2}{9}\%$ of their investment; such an alternative minimum tax is not possible in the case of unincorporated enterprises. In the second place, the apparent profits on net income of partnerships and individual enterprises often include the salaries of partners or proprietors, and it would be a delicate problem to force a division of these annual earnings into salaries and into profits. A wise solution would seem to be an income tax on unincorporated business based on the profits of the enterprise before the deduction for partners' and proprietors' salaries; to prevent unnecessary hardship on small enterprises and to simplify the problem of administration, an exemption of $5,000 might be allowed. If the tax were made a pure income tax at a rate of 4½%, the absence of any alternative taxes on the capital basis would more or less offset the discrimination in the method of determining the taxable income. Such a tax would bear more heavily upon high-profit individual enterprises than upon high profit corporations; it would represent a smaller burden, however, upon lower-profit individual enterprises than upon low-profit corporations. The revenue yield of a 4½% net income tax on unincorporated business enterprises, no deduction being allowed for partners' or proprietors' salaries, would be about $15 millions annually.

A Tax on Retail Sales

The gross sales tax as a method of taxation is strongly disapproved of by economists, and wherever it has been applied it has usually been productive of much dissatisfaction and of injury to business. Its primary disadvantage is that it discriminates against lines of production in which many independent processes are necessary before the raw material becomes a finished product; it favors vertical combinations of industry, bringing the various steps of production under one management and eliminating successive series of sales. The retail sales tax, in which the article is taxed

only once, at its point of final sale to the consumer, avoids these difficulties. The one objection against it is that, in its final effect, it is regressive. It bears more heavily upon individuals with small incomes than upon individuals with large incomes, since the greater proportion of the income of the former group is devoted to consumption and a smaller proportion to saving. It would have a place, however, in the New York tax system which is otherwise progressive. A very moderate retail sales tax, such as would not represent an extreme burden even upon the lowest income groups and would not unduly encourage purchasing in neighboring states without such a tax would, however, be productive of considerable revenue.

The retail sales tax is levied upon the gross income of the retail dealer, with the assumption that he passes this tax on to the purchaser of his commodities. It can be levied either at a single flat rate for all retail sales, or an element of classification can be introduced whereby the sales of articles of necessity are taxed at a lower rate than the sales of luxuries or semi-luxuries. It should be recognized that such a classification, while satisfactory to the principles of fiscal justice, adds an element of complication to the administration of the tax. Otherwise the administration of the tax is simple and inexpensive, once the record has been made of all dealers who engage wholly or in part in retail sales. For administrative reasons, a low minimum exemption might be permitted, although this would be contrary to the principles of the tax.

An Income Tax Filing Fee

The progressive character of New York's personal income tax would justify attaching to it a $3.00 or $5.00 filing fee. In the case of individuals who file returns for the income tax, this fee would be attached to the return itself. In the case of those whose personal exemptions exceed their net incomes and who at present file no tax return, this fee would be attached to affidavit that their net incomes are less than the exemption allowed.

Such a filing fee would be productive of considerable revenue—about $7.5 millions annually at a $3.00 rate—at low administrative cost. This filing fee is especially to be

recommended because it reaches the very large groups of individuals who at present are within the exemption limit of the personal income tax, and many of whom do not own property and therefore pay directly no state or local taxes whatsoever. These non-taxpayers, however, can vote upon questions of public expenditure, and such a filing fee places upon them the responsibilities of public expenditure of which heretofore they have received only the benefits.

A Gasoline Tax

New York covers about one-fourth of its highway costs by special charges or taxes on automobile owners, as compared with three-eighths for the country as a whole. Considering the number of automobiles in the state and the mileage of highways constructed and kept in repair, New York makes smaller demands upon its motorists than any other state. It is therefore logical and just to look to the motorist who uses the state's highways for a part of the increased tax revenue that must be forthcoming in the near future.

An increase of the rates of motor vehicle license charges emphasizes the individual discriminations and injustices which cannot be separated from heavy dependence on these charges. It would, therefore, be advisable to draw any increased highway revenue from motorists, if this should be desired, by use of a gasoline tax rather than by increasing the motor vehicle license charges. The gasoline tax has the further advantage of apportioning the special highway revenue burden more closely to use of and damage to the highways than any form of motor vehicle license charge. The combination of the two systems of highway taxation accomplishes a very fair and reasonable distribution of the tax burden involved. If New York should levy a gasoline tax in addition to a system of motor vehicle license charges, for each cent of such tax there would be produced $10 millions of revenue annually.

The Interrelation of the State and Local Fiscal Systems

The only important tax that can be efficiently levied by local governments is the general property tax. The revenue needs of the local governments in New York, however, are far beyond the revenue that can be raised from this tax without creating an excessive tax burden upon property. It is, therefore, necessary to consider the means of supplementing the local tax revenue. This need will increase in the future as local expenditures expand, and the problem will become an ever more pressing one. There are two effective methods—state aid and the division of state collected taxes. Both are at present employed in New York.

As far as the actual amount of money is concerned, it makes little difference whether revenue from state sources be paid out of the general fund of the state and earmarked to particular forms of local expenditure or whether it be derived from state-collected taxes and then turned over to the local governments without any strings attached. The two main distinctions between state aid and the division of state collected revenue are, first, that in the case of state aid the funds received by the local governments are earmarked to particular expenditures and, second, that the state is given the opportunity to dictate the method and manner of the expenditure, not only of its own aid, but of the funds raised by the local governments for the same purpose.

State Aid

In New York, state aid has been extended to the local governments for two purposes—highway construction and school maintenance. In 1917, $8.8 millions was paid by the state to the local governments. In 1926, state aid totaled $48.6 millions. School aid represented 85% of the 1926 total. There is evidence that state aid will increase rapidly in the future.

Two cautions should be observed in the use of state aid: First, it should be resorted to only when it is desirable that the activity in question should be supervised and be made uniform through central state action, for the use of state aid

is a direct negative of local self-government. There can be no question that highway construction and educational activities are functions in which central supervision is desirable, though it may be questioned, particularly in the school system, how far that central supervision should go. The second subject for consideration is the basis upon which such aid should be distributed. There are two principles of the distribution of state aid—the small-fund system and the large-fund system. Where only a small fund is available for distribution, it can be used best as a bonus to encourage local activity. Where a large fund is available, in addition to this encouragement of local activity, there is the possibility of equalizing between local districts by subsidizing the poorer ones. New York has now reached the large-fund stage. While the element of stimulation must never be lost sight of even with large funds, it can become a subordinate element. New York has recognized this factor in its distribution of school aid and is expending an increased proportion of its state school aid for equalization purposes. Too much of New York's highway aid, however, is still being distributed on bases which take no cognizance of the relative ability of the localities that receive it.

A very important effect of the distribution of state aid should be noted. If the factor of assessed valuations is used as a basis for state-aid distribution, it is bound to affect the ratio of property tax assessments. The use of school or highway funds for equalization purposes requires distribution inversely to assessed valuation. If the figures used are those of original assessments, then encouragement is given to underassessment. State aid for equalization purposes should therefore be distributed inversely to equalized assessments.

Distribution of State-Collected Revenues

The field of state aid accompanied by state regulation is limited. It is desirable that the local governments of New York should receive more supplementary revenue than could be allowed them through state aid. The solution is to distribute back to them a portion of the taxes levied and collected by the state government. Such a redistribution of state taxes already occurs in the case of the personal income

tax, the business corporation and financial institution taxes, the motor vehicle license charge, and the mortgage tax. Should the proposed filing fee, the tax on unincorporated business enterprise, the gasoline tax and the retail sales tax be enacted, the local governments should receive a proportion of these taxes. What proportion should be allowed them must be more or less arbitrary. In general, they should be allowed as much as the state government can afford to give them, since the more revenue they receive from these sources the smaller will be their pressure on the general property tax. Heretofore no portion of the distributed state revenues has gone to the cities or villages (except in the case of New York City, which receives motor vehicle revenue going to its five counties). Since the cities are the heaviest taxing units in the state, it is essential that any plan of distribution should take them into consideration, so that the burden of their property taxes as well as those of the counties and towns may be lessened.

APPENDICES

APPENDIX A

METHODOLOGY

IN many cases the preceding text and tabular materials represent a summation of lengthy and often complicated computations. As a matter of record and to provide a check upon its calculations, the National Industrial Conference Board believes that the principles and methods of these computations should be fully stated.

Sources of Data

Data on New York state and local expenditures, borrowings, indebtedness and tax collections have been drawn almost exclusively from the reports of the State Tax Commission and of the State Comptroller. The United States Bureau of the Census has made full calculations of the tax collections and expenditures of the state governments and of cities over 30,000. In Tables 4, 7, 8, 21 and 22 these figures of the United States Bureau of the Census were used in preference to those of the State Tax Commission or the State Comptroller because of their more detailed classification. For its calculations on the relative tax burdens on New York individuals and corporations, the Conference Board has relied upon data supplied by the United States Bureau of Internal Revenue. Special materials on the operation and effects of particular taxes have been drawn from the reports of the State Tax Commission and from the reports of the Special Joint Committee on Taxation and Retrenchment.

Annual Accounting Period

The New York State government has a fiscal year running from July 1st to June 30th. With twelve exceptions the counties have accounting periods running from November 1st to October 31st. With thirteen exceptions the fiscal years of the cities coincide with the calendar year. With nineteen exceptions the town fiscal years also coincide with the calendar year. Four hundred and fifty-seven villages have fiscal years running from March 1st to February 28th or 29th, but the fiscal years of the other fifty-one villages overlap the entire calendar. The accounting periods of the ten thousand school districts run from August 1st to July 31st.

In the present study the accounting period used is that of the fiscal year ending in a given calendar year. There is thus an overlapping of periods in all tables dealing with state and local expenditures and tax collections. Since this overlapping is uniform and continuous, however, it does not invalidate the purposes of the tables.

Calculation of Public Expenditures

As indicated above, the data on the expenditures of the state government in Table 4, and on the expenditures of New York City and of other cities with populations over 30,000 in Tables 7 and 8 were drawn from the "Financial Statistics" series of the United States Bureau of the Census. The expenditures of the counties, towns and villages in Tables 5, 6 and 9, were drawn directly from the annual reports of the State Comptroller. The expenditures of the school districts were taken from the annual reports of the New York Department of Education. In none of these tables was any account taken of the overlapping of the expenditures of the various governmental agencies through the operation of state aid and of special county payments to towns. In Tables 2 and 3, however, it was necessary to eliminate this duplication of items unless an exaggerated picture of New York state and local expenditures were to be presented. In the tables dealing with combined state and local expenditures, the figures for the expenditures of the state government are the same as those in Table 4. State aid to the counties for highway construction was deducted from the county figure. The item "Miscellaneous expenditures" which appears in Table 5 on county expenditures was eliminated in the tables for combined expenditures since this item consists largely of county funds disbursed to the towns and sinking fund taxes; it would have been preferable to have deducted the county aid to towns from the figures for town expenditures but the amount could not be ascertained. State highway aid to the towns was deducted from the total of town expenditures for the combined tables. The figures for New York City expenditures in the combined tables differ from those of Table 7 only in that state aid to New York City for education is deducted.

The expenditures of the other fifty-nine New York cities in the combined tables were calculated as follows: The expenditures for Buffalo and Rochester were taken from the "Financial Statistics of Cities" series of the United States Bureau of the Census. The figures for the other fifty-seven cities are those given by the State Comptroller. The "Financial Statistics of Cities" series

includes interest on public utilities indebtedness with other interest. This item for Rochester and Buffalo was obtained by correspondence from the comptrollers of these cities; it was deducted from the interest figure as given in the "Financial Statistics of Cities," and added to the figure for the maintenance of public utilities. The State Comptroller in his report on city finances includes capital expenditure for public utilities with other capital expenditures. The item of capital expenditures for public utilities for the cities over 30,000 was obtained from the "Financial Statistics of Cities," series. In the case of smaller cities it was estimated by using the ratio of public utilities capital expenditures to public utilities maintenance expenditures for cities between 30,000 and 50,000 as shown in the "Financial Statistics of Cities." The item of capital expenditures for public utilities for all cities thus obtained was subtracted from capital expenditures as shown by the State Comptroller and added to his figure for public utility expenditures. State aid for education was deducted from the figures for school expenditures for all cities.

The figures for village expenditures in the combined table differ from those in Table 9 in that capital expenditures for public utilities (estimated as equivalent to the sale of village public utility bonds) was deducted from the item of capital expenditures and added to the item of public utility expenditures. School district expenditures in the combined table differ from those given in Table 10 in that state aid has been deducted.

Measures of Expenditures and Tax Burdens

The index of price changes, used in Tables 1 and 15 to relate expenditures and tax collections in actual dollars to those in "1917" dollars is the "General Price Level" index of Mr. Carl Snyder. This was chosen in preference to the wholesale price index of the United States Bureau of Labor because the items entering into the Snyder index more closely approximate the items of public expenditure than do those of the wholesale price index. Note should be made here of the analysis of the effect of price changes on the expenditures of the state government by Clarence Heer in his study, "The Post War Expansion of State Expenditures." His index of price changes could not be applied to the figure for combined state and local expenditures in New York, however, because of the differences in the functional distribution of state and local expenditures.

The estimates of New York's wealth from 1917 to 1926 are based on estimates of the national wealth during this period; these latter

estimates in turn were derived by interpolation and projection of the United States Census Bureau's estimates of national wealth for 1912 and 1922 as modified by the wholesale price index number of the United States Bureau of Labor. The estimates for New York State from 1917 to 1921 were obtained by applying the estimated percentages for the state to the national totals, the percentages being estimated by arithmetic interpolation between the proportions in the census estimates of 1912 and 1922. The estimates for years following 1922 were found by adding to the Census estimate of 1922 a percentage of the increase in the national total, based upon the share of New York in the increase between 1912 and 1922.

The income figures for New York State were also computed on the basis of estimated percentages of the national totals. For 1926, a year of pronounced business activity, the percentage given for 1919, a similar year, by Mr. Leven in Report No. 7, "Income in the Various States," National Bureau of Economic Research, was used. For years 1919, 1920 and 1921, Mr. Leven's percentages for New York were applied to the Conference Board's estimates of national income for those years. A study of Mr. Leven's percentages for those years in connection with data from the census of manufactures indicated that in years of unusually great business activity the relative share of New York in the national income declines, and vice versa. A measure of this inverse relationship was found by comparing the increases in the percentages for New York during 1919–20 and 1920–21 shown by Mr. Leven with the deviations of the national income expressed in "1913" dollars from a theoretical standard representing high activity, derived by arithmetical interpolation from the income estimates for 1919 and 1926. On the basis of the practically linear relationship thus found for 1919, 1920 and 1921, Mr. Leven's percentage of 14.35 for 1919 was adjusted for 1922–25 to take into consideration the changing conditions during those years.

The estimate of the number of persons in New York gainfully employed was obtained by a projection and interpolation of the proportions of the New York figures for 1910 and 1920 to the national totals for those years, and by an application of the resulting proportions to the national figures for persons gainfully employed.

Public Borrowings and Indebtedness

The figures for state and local bond issues distributed according to borrowing agencies as given in Table 11 are taken from the

State Comptroller's reports. The figures for bond issues distributed according to the purposes of the loan in Table 12 are taken from the annual municipal supplements of the "Commercial and Financial Chronicle." The figures in Table 11 are somewhat larger than those in Table 12. The explanation of this disagreement is that the "Commercial and Financial Chronicle" reports only the bond issues of borrowing agencies that have incurred a total debt exceeding $25,000. There is necessarily then an understatement in their figures.

The figures for state and local indebtedness as given in Table 13 are taken from the annual reports of the State Tax Commission. In the earlier years covered by this table there were many omissions in the reports made to the State Tax Commission and it is therefore unquestionable that the figures for these years are understatements, particularly in the case of school districts, villages and towns. In recent years, however, the reports have been much fuller and it is probable that the indebtedness figures shown for 1925 and 1926 closely approximate the actual situation.

State and Local Tax Figures

The combined figure for state and local taxes, distributed by the types of taxes, did not involve any such complicated calculation as did the estimate of the functional distribution of state and local expenditures, since the State Tax Commission has published a series of figures of "taxes collectible," distributed by the individual taxes. "Taxes collectible" can not be taken as the equivalent to tax collections, but this was not necessary for the purposes of Table 17 which was intended to show the *distribution* of tax revenues according to the types of taxes rather than the actual *receipts* from the various taxes.

Social and Economic Distribution of Tax Burdens

Table 24 of this study on "The Burden of State and Local Direct Taxes by Income Classes in New York State and in Other States, 1924," corresponds to Table 47 in the Conference Board's "Cost of Government in the United States, 1925–1926." It was impossible to ascertain the amounts of tax exempt income received by New York taxpayers distributed by income classes. This item, which was included in the table in the earlier study was necessarily excluded for both the incomes of New York taxpayers and of taxpayers in all other states appeared in Table 24. With allowance for this factor, the figures in the "Cost of Government" table are

the sum of the items for New York taxpayers and taxpayers in all other states as given in Table 24 of this study.

Table 26 of this study carries back two years the calculations given in Table 45 of the Conference Board's "Cost of Government" study. By thus broadening the period of comparison a more valid relationship has been obtained. The qualifications that must be allowed for in the use of this Table are indicated on pages 113 and 116.

The Burden of the Manufacturing and Mercantile Corporation Tax

Tables 29, 30 and 31 are included in this study as an indication of the difference in burdens imposed upon the various industries subject to the tax, when the burden of the tax is measured by net income. The method of calculating the ratio of the tax to net income earned in New York for each industry precludes any possibility of absolute accuracy in the figure so obtained. Their comparative value, however, cannot be questioned.

No figures are available for income earned in New York State for each industry. The estimate of such income was made as follows: the total of the assets of the taxed industries located in New York was calculated by subtracting the assets segregated outside of the state from total assets. Income earned within New York was estimated by applying to the total earned income the ratio of assets within the state to total assets. The tax liability of individual corporations is calculated this way, but a large margin of error creeps in when the ratio of assets is applied to concerns grouped by industries.

APPENDIX B

THE GROWTH OF NEW YORK STATE ACTIVITIES, 1913 TO 1926

(Source: New York Legislative Document, 1926, No. 68, Table 3)

Primary Administration	Public Works	Public Welfare	Education	Regulatory and Promotional Services
Board of estimate and control created, 1921. Tax administration centralized in tax commission, 1921. Creation of dept. of purchase, 1922. Creation of state police, 1917.	*Canals:* Construction of Barge Canal, 1903–1920, at cost of $150,000,000. Construction of canal terminals costing $26,000,000, 1912–1923. Establishment of state aid to counties for road construction, 1920. Creation of department of public buildings, 1923.	*Corrections:* Conversion of Napanoch Reformatory into institution for feebleminded convicts, 1921. *Insane:* Establishment of Harlem Valley Hospital, 1924. *Feebleminded:* Creation of Commission for mental deficiency to supervise institutions for feebleminded, 1919. *Charities:* Fiscal supervisor replaced by superintendent of purchases, 1922. Given control of purchasing of *all* institutions.	Increase of volume of school aid by about $30,000,000 per year, 1919 and 1920. Assumption by State of cost of educating indigent, deaf, dumb and blind children in institutions, 1923. Further increase in volume of school aid by about $10,000,000 per year, 1925.	*Public Utilities:* Consolidation of public service commissions and creation of transit commission to supervise New York City, 1921. *Health:* Narcotic drug control, 1913–1921. Transfer of quarantine station to Federal Government, 1921. Development of public health education, anti-tuberculosis campaigns and child welfare work. *Agriculture:* Creation of department of foods and markets, 1914. Combined with department of agriculture in 1917, to form department of farms and markets. Establishment of Allegheny Park, 1921. Creation of water power commission, 1921.

APPENDIX C

FINANCIAL STATEMENT FOR HYPOTHETICAL MANUFACTURING CORPORATION

Assets		Liabilities	
Cash	$75,000	Accounts payable	$100,000
Tax exempt securities (4%)	50,000	Notes payable	50,000
Accounts receivable	150,000	Capital stock	
Inventories	175,000	Common (par value $100)	
Land and buildings	200,000	Authorized $500,000	
Machinery and equipment	150,000	Issued	300,000
		Preferred (6%)	100,000
	$800,000	Surplus	250,000
			$800,000
		Fair value of capital stock	$500,000

Gross sales	$730,000
Net operating income for year (before income taxes)	$50,000
Tax exempt income from bonds	2,000
Net profits before income taxes	$52,000
Cash dividends paid:	
Preferred	$6,000
Common (8%)	24,000
	$30,000

This financial statement is derived from the following calculation of a balance sheet for an average manufacturing corporation, based on the capital stock returns of 68,523 taxable manufacturing corporations as reported in the United States Bureau of Internal Revenue's "Statistics of Income, 1925":

Assets		Liabilities	
Cash	$43,742	Accts. payable	$58,521
Accts. receivable	111,185	Notes payable	54,984
Notes receivable	22,660	Bonded debt	49,198
Inventories	158,852	Mortgages	9,136
Fixed property investments	351,712	Capital stock (par value)	
Other items (net)	85,918	Preferred	75,605
		Common	296,901
	$774,069	Total	$372,506
		Surplus	229,724
			$774,069

Fair value of capital stock $540,256

In drawing up the financial statement for the hypothetical manufacturing corporation, all figures were reduced to round numbers. The figure for "Cash" was increased to compensate for dropping the element of "Other items" and to offset the increase in the figure for "Accounts payable." The figure for "Accounts payable" was increased to compensate for the dropping of the item "Bonded debt" which cannot be calculated on an average basis for a hypothetical corporation. These changes bring the hypothetical corporation into closer approximation with the concept of a moderately large "going" concern, since the average derived from the Bureau of Internal Revenue's figures is weighted by the inclusion of a large number of small and moribund corporations.